SIXTY YEARS

OF

INDIAN FINANCE.

BY

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To my Friend,

Prof. S. Radhakrishnan.

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PREFACE.

Though planned as early as 1911 when the author was in England and had every facility for reference to official records, the work was not definitely undertaken in its present form till the commencement of 1918 during the term of the writer's engagement with the Mysore University. The exigencies of regular lecturing work, necessarily impeded the progress of the work, which was rendered all the more difficult owing to the absence of any considerable library facilities. The collection of material and compilation of figures had therefore to be carried on during spells of vacation passed in larger cities with better facilities for reference and research. It was, therefore, nearly two years after the work had first been taken in hand that it was finally completed, and another year before it could be sent to the press.

This brief genesis will serve to explain the defects of compilation which the author is conscious still mar the value of the work to a very considerable extent. It was impossible, while these pages were going through the press, always to incorporate in the text or the footnotes, any changes that may have taken place affecting the subject matter of the discussion during the interval between the time when the work was first completed and it was finally printed.

In some cases an eleventh hour attempt has been made to make the discussion more up to date by including a brief summary of the most important changes But altogether such a work must necessarily suffer in the author's opinion from the short coming of being never exactly up to date. He therefore commends this work to the generous indulgence of the critical reader, not with any intention to minimise the personal criticism against himself, but rather with a view to secure a better reading for the work which the author honestly believes attempts to meet a much felt need.

Given the character of the subject matter of this work; given the costliness of its production and the limited circle of readers which might be expected for the work; the work would probably never have been published but for the generous assistance of a public spirited citizen, who, however, prefers not to be named. The author regrets that he should be deprived of an opportunity publicly to acknowledge his indebtedness but for which the child of his brain might never have seen the light of day. The opportunity is too slight to be suffered to escape altogether without mentioning the direction in which he has received the most valuable assistance.

As hinted above, and contrary to legitimate expectations, the atmosphere of the University life in Mysore was not quite conducive to an undisturbed prosecution of research of the kind attempted by this work. Equally against all probabilities the work received an amount of encouragement while it was going through the press, and the writer obtained facilities for proof-reading etc., which, in view of the position he now occupies, must necessarily be regarded as a concession for which he cannot but be grateful. In cases of emergency when the printer's devil required the immediate return of the copy, the time bestowed upon proof-correction has never been grudged by those, who have much less reason to be generous in this regard, than a body like the University professedly meant to promote research.

Similarly he has obtained valuable assistance in the compilation of the index and the contents from his present colleagues in the office, which he must here publicly acknowledge.

In some respects the present form of the book does not quite realise the intentions of its author. The work was originally meant to be a comprehensive compendium of Indian financial problems which could not be regarded as complete without a review of local finance and a discussion of the finances of the Indian States, but both these have to be excluded for want of sufficient material to complete the picture.

Similarly the author has tried, as far as it rested with him, to give point to his criticism of the existing system by formulating specific constructive schemes embodying his criticism and offering an alternative. The appendix is an illustration of such intention. It might have been doubled by the addition of another Draft Bill, recasting the tariff policy of the country, but for the fact that the entire policy in that behalf appears to be under consideration by a especially appointed committee. Pending report of this committee the author felt it would be premature to suggest a scheme of his own.

158, Walkeshwar Road,

Bombay, 15*th May*, 1921.

SIXTY YEARS OF INDIAN FINANCE.

CHAPTER I.

INTRODUCTORY.

1. "Able as has ever been the administration of India *" said Disreli at the time of the transfer of the Government of India to the Crown.

> "Considerable and distinguished as have been the men whom that administration has produced, and numerous as have been the great captains, the clever diplomats and the able administrators of large districts with whom the Government has abounded, the state of the finance has always been involved in perplexity, and India, that has produced so many great men, seems never to have produced a chancellor of the Exchequer."

This critique of Indian finance is more than justified, if we consider that in the course of 66 years from 1792 to the end of the East India Company, the revenue of the Company showed a deficit † during nearly 40 years. The debt of the East India Company, which was afterwards made the public Debt of India amounted to £71,557,369 in 1858; and it cost £3 million ‡ a year in interest alone. The principal sources of Revenue and expenditure were uncertain, unreliable, unsystematised; and. Finance the most important department of Government, was utterly, inevitably, neglected in the century that witnessed the labours of a nation to bring into existence a strong settled, peaceful, and, perhaps, in course of time, a national Government from amidst the chaos and anarchy attending the downfall of the Mogul Empire.

An attempt is made in this chapter to outline briefly the salient feature of Indian Finance since the day that India began to pass to the East India Company to the time when the Empire was taken up by the Crown of the United Kingdom.

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* Sir Charles Wood's Administration of Indian affairs, by A. West. p. 66.

† The late Mr. Dutt in his work on "India under Early British Rule" says, "It will be seen from the figures given above (from 1792-93 to 1837-38) that if there were 14 years of deficit, there were thirty-two years of surplus; and if the deficit amounted altogether to nearly 17 millions the surplus amounted to nearly forty-nine millions. **The net financial results of Indian Administration was therefore a surplus of thirty-two millions during forty-six years.**" But the figures of expenditure as taken by Mr. Dutt are exclusive, of the expenditure in England which has in later day phraseology been described as the Home charges. The figures given above include the Home charges in the total expenditure; and on that basis the net financial results of the administration of India by the East India Company was a total deficit of over £22,000,000, in 66 years. There is no reason why the Home charges should not be included in considering the total expenditure, and Mr. Dutt himsef takes them into account though in another connection.

‡ Mr. Wilson in his first Budget speech observed., "The period embraces 46 years (1814-1859). Of that number we had a surplus in 13 years amounting on the whole to 8,895,437 a sum not equal to the deficit of the present year; and we had deficits in the remaining 33 years amounting on the whole to the large aggregate sum of £ 72,195,116"......According to the same authority between 1834 and 1860 there were 7 years of Surplus and 19 years which added to the debt of India and only 15 which saw its reduction.

The following table * giving a general view of the Income and expenditure of the Government of India under the East India Company in India and England, though not quite as accurate as may be desired, serves to make clear the following points of criticism with regard to the finances of the East India Company ever since it became a territorial power.

REVENUE AND EXPENDITURE IN INDIA.

Years.	Gross Revenues.	Gross Charges.	Net.	Result.
	£	£	£	£
1792-93..	8,225,628	6,940,833	+1,284,795	....
1793-94..	8,276,770	6,593,129	+1,683,641	....
1794-95..	8,026,193	6,567,808	+1,458,385	....
1795-96..	7,866,094	6,888,997	+ 977,097	....
1796-97..	8,016,171	7,508,038	+ 508,133	....
1797-98..	8,059,880	8,015,327	+ 44,553	....
1798-99..	8,652,033	9,139,403	....	— 487,370
1799-1800	9,736,672	9,955,390	....	— 218,718
1800-01..	10,485,059	11,468,185	....	— 983,126
1801-02..	12,163,589	12,410,045	....	— 246,456
1802-03..	13,464,537	12,326,880	+1,137,657	....
1803-04..	13,271,385	15,395,405	....	— 2,124,020
1804-05..	14,949,395	16,115,183	....	— 1,165,788
1805-06..	15,403,409	17,421,418	....	— 2,018,009
1806-07..	14,535,739	17,508,864	....	— 2,973,125
1807-08..	15,669,905	15,850,290	....	— 180,385
1808-09..	15,525,055	15,392,889	+ 132,166	....
1809-10..	15,655,985	15,534,711	+ 121,274	....
1810-11..	16,679,197	13,909,911	+2,769,216	....
1811-12..	16,605,615	13,220,966	+3,384,649	....
			13,501,566	
1812-13..	16,336,290	13,515,828	2,820,462	....
1813-14..	17,228,711	13,617,725	3,610,986	....
1814-15..	17,297,280	17,400,272	....	102,997
1815-16..	17,237,819	18,277,365	....	1,039,546
1816-17..	18,077,578	18,446,583	....	369,005

* The table has been constructed from the various returns made to the House of Commons and the Reports of the Select Committee which are regularly appointed since 1772 at each renewal of the Company's Charter in 1733, 1793, 1813, 1833 and 1853.

A.—The column of Net Revenues includes the gross receipts under the several Revenue heads, less repayments and charges of collection that of Net Charges includes the gross expenditure under all heads (except repayments and charges of collection), less receipts under the Service heads of Expenditure.

Note.—The Receipts and Charges up to 1835-36 are at a shilling the sicca rupee.

Years.			Gross Revenues.	Gross Charges.	Net.	Result.
			£	£	£	£
1817-18..	..	..	18,375,820	19,168,485	....	792,665
1818-19..	..	..	19,459,017	20,839,076	....	1,380,059
1819-20..	..	..	19,230,462	20,992,123	....	1,761,664
1820-21..	..	..	21,352,241	21,234,979	117,262	....
1821-22..	..	..	21,803,108	21,192,410	610,898	....
1822-23..	..	..	23,171,701	21,428,562	1,743,139	....
1823-24..	..	..	21,280,384	22,127,475	....	847,091
1824-25..	..	..	20,750,183	23,711,330	....	2,961,147
1825-26..	..	..	21,128,388	26,082,306	....	4,953,918
1826-27..	..	..	23,383,497	25,779,817	....	2,396,320
1827-28..	..	..	22,863,263	26,014,407	....	3,151,144
1828-29..	..	..	22,740,691	23,668,320	....	927,629
1829-30..	..	..	21,695,208	20,624,674	1,070,534	....
1830-31..	..	..	22,019,310	21,680,471	338,839	....
1831-32..	..	..	18,317,237	18,524,828	....	207,591
1832-33..	..	..	18,477,924	18,742,256	....	264,337
1833-34..	..	..	18,267,368	18,217,969	49,399	....
1834-35..	..	..	26,856,547	13,847,364	8,009,283	....
1835-36..	..	..	20,148,125	18,104,618	2,043,507	....
1836-37..	..	..	22,359,967	19,721,605	2,638,362	....
1837-38..	..	..	21,610,557	20,011,600	1,598,957	....
1838-39..	..	..	21,632,680	21,480,596	152,084	....
1839-40..	..	..	20,151,750	22,399,942	....	2,248,192
1840-41..	..	..	20,851,351	22,721,481	....	1,870,130
1841-42..	..	..	21,840,018	23,723,432	....	1,883,414
1842-43..	..	..	22,616,487	24,052,405	....	1,435,918
1843-44..	..	..	23,586,673	25,121,643	....	1,535,070
1844-45..	..	..	23,666,246	24,459,328	....	793,082
1845-46..	..	..	24,270,608	25,865,676	....	1,595,068
1846-47..	..	..	26,084,681	27,120,630	—1,035,949	....
1847-48..	..	..	24,908,302	26,947,545	—2,039,243	....
1848-49..	..	..	25,396,386	26,967,708	—1,571,322	....
1849-50..	..	..	27,522,344	27,148,344	+374,000	....
1850-51..	..	..	27,625,360	27,205,562	+419,798	....
1851-52..	..	..	27,665,145	27,151,377	+513,768	....
1852-53..	..	..	28,429,275	28,045,376	+383,899	....
1853-54..	..	..	27,916,058	30,183,227	—2,267,169	....
1854-55..	..	..	28,959,822	1,898,782	—1,938,960	....
1855-56..	..	..	30,671,958	31,971,872	—1,299,914	....
1856-57..	..	..	31,415,559	31,971,084	—55,525	....
1857-58..	..	..	31,643,267	40,044,552	—8,401,285	....

(1) Both the Revenues and the expenditure are constantly increasing. But in neither case is any attention paid to the scientific construction of a proper financial system. With the exception of the Land Revenue, all other sources of revenue are those prevailing in the conquered or annexed territories without any attempt at a proper distribution of the burdens of taxation, or any attention to the economic effects of the taxes.

(2) As regards expenditure the most absorbing items were War and the Company's Investment, or what afterwards developed into the Home Charges. Here, too, no attempt was made to lay out money for the all-round development of the country. As the territory under the Company's jurisdiction was constantly increasing, the few endeavours at organizing the civil administration, and concentrating attention on the internal development of the country, were bound to be frustrated by the altered conditions. The military expenditure was necessarily uncontrolled and uncontrollable.

(3) Each case of deficit was met by borrowing without any attempt being made to increase the revenues or reduce the expenditure and thus secure an equilibrium permanently. The country was in a state of ceaseless wars. As the rulers of India under the Company had not yet mastered the science of War Finance, their only remedy was to postpone the evil day by borrowing. This system more than justified the remark of Wilson—the first Finance Minister of India—"**that the conditions of Indian Finance was one of chronic deficit.**"

(4) Almost all of the foregoing evils were due to the want of a separate departmentof Finance. All the members of the Supreme Government—the Governor General in Council—were equally employed in making and unmaking kings. No one, therefore, had any time or thought for Finance.

II. PRINCIPAL SOURCES OF REVENUE.

LAND REVENUE.

The most important source of the East India Company's revenue, ever since it became a territorial power in 1765 by the acquisition from the Moghul Empero. —the sovereign *de jure* of the country—of the Diwani of Bengal, Bihar and Orissa, was the revenue from land. We do not, of course, take into consideration the revenues of the Company from the profits of its trade, not only because such a discussion would be outside the limits of our subject, but also because ever since the counting-house clerks had abandoned the pen for the sword, the Company's trade profits were steadily ebbing away as much on account of the new war expenditure, as by the scarcely concealed dishonesty of their servants. Land Revenue, therefore, is a most important—and for a long time the most fruitful—source of the East India Company's income.

(A) LAND REVENUE IN BENGAL, BIHAR AND ORISSA.

On the acquisition of the Diwani of the three richest Provinces of the Moghul Empire, Lord Clive continued the system of revenue collection which he found in operation in the Provinces. The system was essentially the system established by the great minister of the greatest Moghul Emperor. According to Todar Mall's system, all lands were divided into three classes. The share of the State was then fixed at one--third of the produce, which was afterwards converted into an equivalent in cash. This cash demand was fixed unalterably for a period of years, and was, under Akbar, collected from the cultivators (or land-owners) by the officers of the State. Mr. V. S. Smith supports the view that Akbar's settlement was Ryotwari—with the cultivator direct.* Though the revenue demand varied in different provinces, as a rule it was one-third of the produce—double the previous rate; but then Akabar had remitted many other dues and taxes. In the century and a half that followed Todar Mall's famous settlement in 1582, various changes were made, both in the amount collected as well as in the mode of collection. The amount collected had been increased as follows † :—

Todar Mall's Settlement		1582	..	..	..	Rs. 10,693,152
Sultan Suja's	,,	1658	..	..	..	,, 13,115,907
Jafar Khan's	,,	1722	..	..	..	,, 14,288,186
Suja Khan's	,,	1728	..	..	..	,, 14,245,561

The mode of collection was altered owing to the growing interposition of capitalist Revenue farmers who paid the State in advance‡, and in exchange undertook to collect the share of the State demands from the cultivators. If they could realise more than they had paid to the State the excess was kept by them as their profit; and they naturally took care to make their collections exceed their payments. If, however, by some unforeseen circumstance, like a famine or war, the collections fell below the payment, the contractors had to bear the loss.

§ Prof. J. N. Sarkar in his work on India under Aurangzebe gives the following figures of Revenues for Bengal, Bihar and Orissa at different periods.

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* Cp. Vincent Smith's Akabar pp. 370-380, Imperial Gazetteer Vol. IV, Ain-Akabari. See also Mr. Moreland's recent study called, "India at the Death of Akbar."

† These figures are given in an appendix to the minute of Sir John Shore, afterwards Lord Teignmouth on the question of Permanent Settlement in Bengal 1790. Printed in V Report 1793 of the Select Committee.

‡ As to when and how exactly the system of revenue farming came into vogue, we have no precise knowledge. Probably it came into existence between 1707 and 1740 owing to the wakening of the central authority of the Moguls, and the dread of the Maharatta horse let loose to collect the Chouth.

§ The figures vary considerably, and they are often incredibly large. It must be remembered that they are for not the same area in any two cases.

The total Provincial Revenue was :—

Year.		Bihar.	Bengal.	Orissa.	Total.
1594	..	55,47,985	1,18,18,167	31,43,316	2,05,09,468
1648	..	1,00,00,000	1,25,00,000	50,00,000	2,75,00,000
1654	..	1,36,32,523	1,14,46,450	56.39,500	3,07,18,423
1665	..	95,80,000	....	72,70,000	1,68,50,000
1695	..	95,18,250	1,15,72,500	1,01,02,625	3.11,93,375
1697	..	1,21,50,000	4,00,00,000	57,07,500	5.78,57,500
1700	..	73,58,613	1,31,15,903	43,21,025	2,47,95,541
1707	..	1,01,79,025	1,31,15,906	35,70,500	2.68,65,431
1720	..	94,60,434	1,40,72,725	....	4.35,33,159

As already observed, Clive and his immediate successors continued the system. The revenue demands of the Bengal* Subah in the three years immediately preceding the grant of the Diwani to the Company were :—

	In	1762-63	Rs.	64,56,198
	,,	1763-64	,,	76,18,407
(E. I. Co.)	,,	1765-66	,,	1,47,04,875.

The very first year of the Company's rule made an increase of nearly 80 per cent. And this increase in collection was progressively maintained in spite of famine. "Notwithstanding the loss of at least one-third of the inhabitants," wrote Warren Hastings about this time, "of the province and the consequent decrease of the cultivation, the net collections of the year 1771 exceeded even those of 1768.†" The following table illustrates the steady growth of the Company's demands from 1765 to 1779. ‡

1765-66	..	£ 2,258,227	1772-73	..	£ 2,886,968
1766-67	..	£ 3,805,817	1773-74	..	£ 3,160,186
1767-68	..	£ 3,608,009	1774-75	..	£ 3,571,915
1768-69	..	£ 3,787,207	1775-76	..	£ 4,198,017
1769-70	..	£ 3,341,976	1776-77	..	£ 3,971,440
1770-71	..	£ 3,332,342	1777-78	..	£ 3,688,088
1771-72	..	£ 3,259,564	1778-79	..	£ 3,782,690

The mode of collection was also changing imperceptibly. The East India Company at first collected its revenues from the Native Agents of the Nawab of Bengal (1765-1769). Maharaja Nandkumar and Mahomed Reza Khan were the

* N.B.—Sir John Shore in his famous minute of 18th June 1789 asserts that Zamindars existed in the time of Akbar and they existed when Jaffar Khan was appointed to the administration under him and his successors.

† Quoted in Hunter's Annals of Rural Bengal.

‡ These figures are for the Total Revenues of the Province, not Land Revenues alone. The land revenue figures are :—

1771-72	£ 2,341,951
1772-73	£ 2,298,441
1773-74	£ 2,438,405
1774-75	£ 2,777,870
1775-76	£ 2,818,017
1776-77	£ 2,755,043
1777-78	£ 2,530,042
1778-79	£ 2,656,809.

two distinguished Collectors of the period. But in 1769 English supervisors were appointed to superintend the collection of Revenue and administration of justice. This double Government was as expensive as it was inefficient and therefore in 1772 a five years settlement was made by Warren Hastings. The constitution of the Company's Government had altered considerably when this first quinquennial settlement of land Revenue expired in 1777. The Government of the day—and particularly Philip Francis, the indefatigable opponent of Warren Hastings—proposed to fix permanently the "jumma" or land revenue and make it a matter of public record. But Warren Hastings preferred annual auctions on the offchance of securing a greater revenue to the Company. The only concession that he would make was to give a preference to the old Zamindars in auctioning the land. For the next three years, 1778, 1779 and 1780 annual settlement of revenue by public auction was adopted; and thus the doubtful practice of the Moghul Subhas seemed to receive the approval of the Company's Government. It was continued for another ten years even after the reforms of 1781, when a complete code of Regulations was issued for the guidance of Revenue officers and Civil Courts. At the seat of Government a central Revenue Board, called the Committee of Revenue, was formed, which also approved the principle of annual settlements of Land Revenue in the plan it submitted for improving the system and increasing the yield. In auctioning, however, preference was to be given to the Zamindars.

No wonder that under this system of annual revisions of revenue demands, payable in cash, the results were disastrous. Lands passed inevitably into the hands of money lenders who could not possibly have any interest in agriculture. Speculation in land became a most fashionable—if somewhat risky—occupation. And though the Company's treasury benefited to the extent of Rs. 26,00,000 per year, the increasing poverty of the little people and their abandonment of lands boded little good to the State in the near future.

The Directors of the Company, however anxious they may have been for the dividends of the shareholders, could not for ever close their eyes to this suicidal policy. In their instructions to Lord Cornwallis, dated the 12th April, 1786, they made clear their disapproval of the annual settlements, even though they occasionally resulted in increased revenues. The exclusion of Zamindars—the capitalists of the country—in favour of mere speculators—Sezawals and Amins—could not but prove prejudicial to the interests and the well-being of agriculture, and the possible increase in the revenues might, not inconceivably, be counterbalanced by the defalcations, inevitable when such large sums had to be collected from such persons. The Directors, therefore, favoured revenue settlements with hereditary Zamindars declaring that:—

> "A moderate Zumma or assessment, regularly and punctually collected, unites the consideration of our interests with the happiness of the Natives, and security of the landholders more rationally than any imperfect collection of any exaggerated Jumma to be enforced with severity and vexation.*"

* Select Committee's V Report p. 13 quoted by Dutt p. 82.

And, as a preliminary step to the eventual conclusion of a permanent settlement of Land Revenue, they directed Lord Cornwallis to conclude a ten-years' settlement.

Lord Cornwallis, an English Nobleman and Land-owner, could not but sympathise with the landed interest—such as it was at the time—in India. The Board of Revenue—the new designation of the Committee of Revenue of 1781—could not, however, advise an immediate settlement for ten years before the necessary inquiries were carried out. But in spite of the many pre-occupations and anxieties of a great war and of the reforms in the whole organization of administration, Lord Cornwallis succeeded in establishing a permanent settlement of Land Revenue in Bengal, Bihar and Orissa before he left India.

We shall postpone to a later chapter the discussion from an economic stand point of the relative merits of the different kinds of Land Revenue settlement. In this brief resumé of the Company's policy with regard to the most important of its sources of revenue, it would suffice to indicate the motives which influenced the authors of the Permanent Settlement in Bengal. Says Sir J. Shore—afterwards raised to the peerage as Lord Teignmouth—the able councillor of Lord Cornwallis, and Governor General of India 1795-1798, in his celebrated minute (18th June 1789) on the Permanent Settlement of Land Revenue in Bengal:—

"The leading principles upon which I shall ground my propositions for the ensuing settlement are two: The security of Government with respect to its revenues and the security of protection of its subjects. The former will be best established by concluding a Permanent settlement with the Zamindars or proprietors of the soil. The land their property is the security of the Government. The second must be ensured by carrying into practice, as far as possible, an acknowledged maxim of taxation. The tax which each individual is bound to pay ought to be certain, not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and every other person.*"

Sir John seemed to have somewhat abated his ardour for Permanent Settlement as shown by a later minute. But Lord Cornwallis remained firm. His minute of 3rd February 1790 reviewed Sir John's† new arguments and replied to them. The Directors approved of His Lordship's views in their despatch of 29th September 1792. And thereupon Lord Cornwallis issued a proclamation, on 22nd March 1793, announcing the permanency of Settlement which had already been concluded or was yet in progress. And Regulation I of 1793 was passed accordingly.

The revenue demand from the Zamindars of Bengal, fixed in 1793 for all time to come, was calculated at 90 per cent. of the gross rental, and had amounted in 1790-91 to Rs. 2,68,00,989. This was as high as it was possible to go at the time. It was three times the collection of Maharaja Nandkumar in the last year of the Nawab's rule 1764-65, being only 81,75,533; and double the collection in the

* The last words of the minute recall—if they do not reproduce verbatim—one of the famous cannons of taxation laid down by Adam Smith. But in respect of this Land Tax (or rent ?) the canons of taxation were by no means always attended to.

† Sir John Shore's minute is printed in Report V 1812. Lord Cornwalli's minutes also in the sam. document.

first year of the Company's Diwani, 1765-66 being Rs. 1,47,04,875. So that it was raised within a generation by 200 per cent. It needs but to mention this figure to show (1) that the Permanent Settlement of 1793 did not in any way err on the side of liberality at the time it was made, whether we consider the actual amount demanded, or the proportion (90 per cent.) of the rental fixed as the basis of the demand. (2) But it also shows that the demand being once fixed, the Zamindars, whether they were originally land-owners or not, got full proprietory rights in their Zamindaries; that capital investment in agriculture was thereby encouraged, and that to-day the amount paid by way of land revenue to the State in Bengal, Bihar and Orissa, is a steadily diminishing proportion, being less than 25 per cent. of the total rental of the landlords.

(B) LAND REVENUE SETTLEMENT IN MADRAS.

In Madras the situation of the East India Company was materially different. Though the first beginnings of theCompany's military power were made in Madras, and though the defeat of the rival European power was crushing and complete, for a long time theCompany's possessions in the Peninsula remained insignificant. Viewed only as a military incident the Battle ofWandewash was, perhaps, a much greater victory than the Battle of Plassey. But the consequences were different. The triumph of Plassey led irresistibly to the Diwani of Bengal, Bihar and Orissa; the victory of Wandewash was dissipated in the ill-timed haste of the Company's servants to enrich themselves. Instead of the Company acquiring any permanent interest in the administration of the territories of the Nawab Mahomed Ali of Karnatic, their dominant position was used by the Company's servants—as it was also used in Bengal but for a much shorter time—for their own private ends. The Nawab's vices ministered to the greed of his allies. He was induced or blustered into contracting debts of enormous sums to the servants of the Company, who charged interest, not in proportion to the value of the money lent,but in accordance with their calculations of getting rich*. The only security that the Nawab could offer to his grasping creditors was the revenues of his dominions, which were, therefore, collected by the Company's servants in the name of the Nawab. This wholesale farming of the revenues of the richest provinces was obviously inconsistent with any dictates of moderation, forethought or statesmanship. The Madras Presidency, therefore, has no revenue history right upto the close of the 18th century, beyond the miserable story of the insatiable greed and unbounded rapacity of the Company's servants and the Nawab's creditors. The revenues from the

* The notorious Paul Benfield made such an ample fortune in a short time that in 1782, when the question of the Nawab's debts was brought before Parliament, he had at least 10 votes in that august body at his disposal.

IV Report Committee of Secrecy 1782 pp. 672-74

N.B.—Total surplus for the period	£ 897,642	—44,139.
Total deficit „ „ „	£ 941,782	

districts which the Company had acquired were often insufficient to meet the expenditure as the following table shows :—

Year.	Total Revenue.	Expenditure Net.	Surplus or deficit.
	£	£	$
1767-68	381,330	489,012	— 107,682
1768 69	369,720	691,471	— 321,751
1769-70	500,100	467,492	+ 36,608
1770-71	562,359	434,392	+ 127,960
1771-72	558,860	407,446	+ 151,414
1772-73	529,233	309,138	+ 220,095
1773-74	524,762	407,144	+ 117,618
1774-75	503,629	454,589	+ 49,040
1775-76	514,591	345,867	+ 168,724
1776-77	563,349	533,182	+ 30,167
1777-78	283,198	485,830	— 202,632
1778-79	494,208	803,924	— 309,716

The history of British rule in the Madras Presidency, as we know it to-day, can be said to commence properly only after the final defeat of Tippu Sultan in1799. It is true the Northern Circars had been acquired long before that, along with the Diwani of Bengal in 1765. But the cession, though made by the titular emperor of India, was not quite accepted by the *de facto* ruler of the Province—the Subedar of the Deccan—till the time of the Mysore Wars. The Court of Directors had instituted a Committee of Circuit as early as 1775 for those districts, with a view to make some definite arrangements for the collection of land revenue from those districts. But the committee was abolished by Rumbold in 1778, and he made a five years' settlement with the Zamindars of the Northern Circars, after enhancing the revenue demand by 50 per cent. The practice of annual settlements was resumed in 1783 which lasted up till 1786, when a three years' settlement was made which was changed into five years in 1789, the State demanding two-third of the Zamindars' gross collections. The same arrangements were made with the new District of Guntoor acquired in 1788*.

Besides these Zamindari lands, there were in the Northern Circars, also other lands, known as the *Haveli* lands belonging more directly to the Government These lands were mostly tracts adjoining the chief cities, and reserved, under the old regime, for the supply of the garrisons and Civil Government. After the establishment of British rule in the Circars, these lands were left to be settled at the discretion of the Government. And the Company at first adopted the system of farming out the revenues of these districts through the agency of speculating renters † The existence of the village community was ignored, in spite of the immemorial custom, accepted by all previous rulers, in settling and collecting the land revenue through the agency of the village Corporation. The first reform was made in 1787 when revenue collectors were appointed, who adopted two different

* Vide Report 1812.

† Vide Report 1812 p. 85

methods of collection. In some places the farming system was continued while in others the practice of collection in kind from the cultivators direct was adopted. This may be taken to be the beginning of the later-day Ryotwari system, though the general practice at first was for the Collectors to make settlements with the head inhabitants of the villages, who then made a separate arrangement with each individual cultivator. In 1794 the Company abolished the chief and Councils and the Collectors became directly responsible for revenue settlements under the Board of Revenue*.

The Zamindary lands in the Northern Circars were permanently settled in 1802-5 under the influence of Lord Clive †. The Haveli lands were then parcelled out into *Mootahs* in the same period, each yielding a revenue of between 1,000 to 5,000 Star *Pagodas*, and were sold by public auction as permanent Zamindaries. So also the *Jaghir* lands round about the town of Madras.

The other districts of the present day Madras Presidency were acquired between 1792 and 1802. Cornwallis added to the Company's possessions, in the South Salem and Krishnagiri and the Baramahal after the Peace of Seringapattam. Wellesley annexed Canara, Coimbatore, and Palghat from the Mysore territory in 1799. The Raja of Tanjore, who had been ousted in 1773 to satisfy the greed of Mahomed Alli's creditors and restored in 1776, was now finally deposed; and his territories helped to round up the Company's dominions; while his old oppressor—the Nawab of Arcot—was made by the same Pro-consul to retire on pension, and the whole of the Carnatic was added. The country between the Krishna and the Tungabhadra was ceded by the Nizam, under the subsidiary alliance, and the Madras Presidency was practically completed. The settlement of these new districts was for a long time a vexed question. The generation which had influenced and carried out the Permanent Settlement of Bengal was passing away. The needs of the Company were constantly growing and the conclusion of a fixed settlement—unalterable at any time in the future—was beginning to be regarded as injurious to the interests of the Government.

Conspicuous among the settlement officers of the time stands the name of Sir Thomas Munro. His first settlement experience was in the Baramahal which he settled on the Ryotwari basis completely in 1798. The new system was all the more easily adopted as there were no great land-owners in the country, corresponding to the Zamindars of Bengal, or the Northern Circars. It involved much greater trouble in management, owing to there being 20,000‡ different individuals from whom the revenue had to be collected. But the total yield was considerable, and Munro became confirmed by this experience in the belief regarding the advantages of a Ryotwari settlement. He did, indeed, desire an element of permanency in the arrangements with the Ryots in order to stimulate improvements in agriculture. But the Madras Government did not adopt the suggestion. He was

* V Report ibid 1812 pp. 93-98

† A son of the great Lord Clive.

‡ Munro's letter dated 21st September 1800.

then appointed to settle Canara (1801) and the Ceded Districts of the Nizam (1801-07) in all of which he adopted the system of settling and collecting the revenue from each individual cultivator. From an exclusively revenue standpoint the results were eminently successful, as the revenue from land was raised from £402,637 as it was before the Settlement* to £606,909 after the Settlement. But the mischievous principle was established whereby revenue officers began to judge of their efficiency according to the amount of their collections, no matter what the hardships of the practice might be.

The Malabar Districts also, which had been acquired in 1792, and were at first made over to the Bombay Government, were also settled mostly on a Ryotwari basis. The experience of the Bombay authorities in eight years of administration was not very encouraging. They had at first adopted the system of annual settlements with the Rajas and Nair Chiefs, but on the failure of the latter to pay punctually, their lands were confiscated. They made a futile rebellion. The Province was then transferred to the Madras Government, who, under the direction of Lord Clive, made some settlements with the Nair Chiefs; but they were gradually ousted and separate settlements with individual cultivators became then the rule. The same fate befell the Pattakdars of the Tanjore territory which was annexed in 1799. The Pattakdars were the head ryots treated by the old Rajas as the middle men for their revenue demands. The British Government made settlements with individual cultivators (1804) fixing the revenue with reference to the produce of an average number of years, without any survey valuation of the lands.

The Polygars of the Karnatik fared hardly better. The first settlement under the British Government (1799-1800) raised the revenue demand at once by 117 per cent. against which the Southern Polygars openly rebelled, but the rebellion was put down and a number of estates were confiscated. The revenue demand was made progressive for several years, to be fixed ultimately at 66 per cent. of the gross collections, and was afterwards reduced by the permanent settlement of 1803 to 51 per cent. of the gross rental in the districts of Tinevelly, Ramnad, Sivaganga. This system was afterwards adopted in other parts of the Karnatic excepting Chittoor where most of the Polygar estates were confiscated and settlements were made with the tenants directly.

The whole question of the Land Revenue settlement formed the subject of a very animated discussion in the early years of the last century (1807-1820), the Madras system being the occasion and and the focus of the discussion. The respective merits of the three different systems—theBengal system of Permanent Settlement (Zamindari),the Madras system of Ryotwari settlement, made permanent as suggested by Munro in 1807, and the Mauzawari settlement with the village community, as suggested by the Madras Board of Revenue—were hotly debated upon. The Ryotwari system was urged by Munro as combining the advantages to the Government and to the people if certain modifications he suggested were made.

* V. Report 1812 O. 124.

The settlement with the Ryots, he thought, ought to be made permanent, after the demand was reduced from 45% of the produce to 33⅓%. That would encourage agriculture, not only because a larger margin would be left to the cultivators, but also because new lands would be taken into cultivation more readily. The two other alternatives did not meet with the approval of the Court of Directors, and so the Ryotwari system was ordered to be adopted, without the changes suggested by the statesmanship of Munro, in all the new Provinces.

The following table shows the growth of Land Revenue in the Madras Presidency under the Company :—(1800-1837).

MADRAS LAND REVENUE.

Year.		£	Year		£
1792-93	..	742,760	1815-16	..	3,609,668
1793-94	..	789,050	1816-17	..	3,826,107
1794-95	..	891,640	1817-18	..	3,856,433
1795-96	..	929,200	1818-19	..	3,799,410
1796-97	..	900,534	1819-20	..	3,791,931
1797-98	..	732,983	1820-21	..	3,738,460
1798-99	..	856,866	1821-22	..	3,708,404
1799-1800	..	883,539	1822-23	..	3,769,369
1800-01	..	957,799	1823-24	..	3,741,100
1801-02	..	1,095,972	1824-25	..	3,765,212
1802-03	..	933,108	1825-26	..	3,798,682
1803-04	..	921,646	1826-27	..	3,669,312
1804-05	..	993,849	1827-28	..	3,605,226
1805-06	..	1,097,416	1828-29	..	3,649,012
1806-07	..	963,440	1829-30	..	3,522,100
1807-08	..	1,039,671	1830-31	..	3,460,329
1808-09	..	1,057,628	1831-32	..	3,252,117
1809-10	..	1,184,253	1832-33	..	2,940,703
1810-11	..	1,071,666	1833-34	..	3,176,708
1811-12	..	1,048,844	1834-35	..	3,256,855
1812-13	..	1,159,778	1835-36	..	3,297,602
1813-14	..	892,793	1836-37	..	3,161,490
1814-15	..	3,887,555	1837-38	..	3,431,270

(C) LAND REVENUE IN THE NORTHERN PROVINCES AGRA AND OUDH.

The districts which are comprised to-day in the United Provinces of Agra and Oudh came under the British rule very gradually. Benares and the territories around were annexed by Hastings in 1775 on the death of the Nawab of Oudh. Allahabad and the adjoining districts were ceded by the Nawab in 1801. The conquests of Lord Lake in the Maratha War of 1802-03 brought Agra and the basin of the Ganges and the Jumna. Finally the province of Oudh was annexed in 1856.

The first to be settled was the Benares territory. The Raja of Benares by a treaty of 27th October 1794, relinquished all his rights to the British Government except the Zamindari rights over the tract which had formed the original patrimony of his family. In the following year a permanent settlement, similar to that of the Bengal Settlement, was made with the village Zamindars.

The districts ceded by the Nawab of Oudh in 1801 and the Provinces conquered by Lake in 1802-03 were the next to acquire a settlement. Henry Wellesley was the first administrator of the ceded districts and he made a three years' settlement raising the revenue by nearly 25 per cent, over the Nawab's demand*. By Regulation XXXV of 1803 it was notified that after the first triennial settlement, another settlement for three years would be made, to be followed by one of four years, and at the end of ten years a permanent settlement would be made. The conquered provinces were also placed under the same regulation. Regulation X of 1807, repeated this pledge. But, meanwhile, the Special Commissioners appointed in 1807—Cox and Tucker—pronounced against a Permanent Settlement concluded so soon after the acquisition of the territories †. And though their suggestions were condemned by Colbrook in a strong minute of that year, the Directors had already realised the value of temporary settlements and they declared themselves against permanent settlement in no ambiguous terms. Lord Minto and his councillors fought hard against this policy of "Grasping at the highest revenue and wringing from our peasants the utmost rent;" but to no avail. The directors looked not so much to the ultimate interest of the country, but to their own dividends, (which were after 1813 seriously threatened by the curtailment of their trading monopoly) which could not but derive considerable benefit from the steady increase in revenue as shown by the table ‡:—

CONQUERED AND CEDED DISTRICTS—NORTH INDIA.

Year.	Land Revenue.	Total Revenue.	Year.	Land Revenue.	Total Revenue.
	£	£		£	£
1807	2,008,955	2,065,396	1813	2,508,681	2,931,906
1808	2,042,347	2,304,004	1814	2,502,223	2,815,579
1809	2,254,791	2,579,949	1815	2,483,133	2,891,015
1810	2,392,852	2,782,642	1816	2,665,667	3,130,853
1811	2,414,737	2,741,728	1817	2,626,761	2,926,923
1812	2,224,709	2,646,858	1818	2,892,789	3,262,355

* The Nawab's Land revenue assessment was Rs. 1,35,23,474.

British Assessment.

First year	Rs.	1,56,19,627
Second year	,,	1,61,62,786
Third year	,,	1,68,23,063

Dutt: India under Early British Rule p. 175.

† L. Rep. dated 13th of April 1808 Colbrook's minute of 17th March 1820.

‡ N.B.—The difference between the Land Revenue and gross or total revenue is accounted for by the Akbari Revenue or income derived from the taxation on the sale of spirituous liquors in the province—a practice inherited from the preceding Government.

N.B.—The total land revenue of the ceded districts and conquered provinces were calculated by Henry Wellesley—the first administrator—to amount to £2 millions when fully settled. The figure was very nearly reached in 1811 and was regularly exceeded after 1813.

Lord Hastings and his Councillors made one more effort for a Permanent Settlement in these parts.

> "It is our unanimous opinion," they wrote, "that the system of a Permanent Settlement of the Land Revenue, either upon the principle of fixed Jumma or of an assessment determinable by a fixed and invariable rate, ought to be extended to the Ceded and Conquered Provinces. *"

But the Directors' reply was once more unmistakable and peremptory. In 1819 Holt Mackenzie—the Secretary to the Board-had recommended a settlement with the village communities, wherever they existed, after a systematic survey and inquiry with the rates of Revenue equalised as between the different districts†. By 1821, Permanent Settlement had become altogether out of the question. Mackenzie's suggestion was, therefore, accepted as the working basis. The Government Resolution of 1822 insisted upon the revenue demand being made at a fixed and moderate rate, and recommended that settlements be made with the landlords wherever they existed, and with the village communities where land was held in coparcenary. Regulation VII of 1822 declared the principles on which the settlement of Land Revenue in those Provinces was to be made. The Settlement was made village by village or estate by estate ‡. The assessment was to be so fixed as to leave to the landlords a net profit of 20 per cent. of the Jumma, or, in other words, the State demand was to be as high as 83 per cent. of the rental. In those estates which were held in common tenancy, the State demand was to be as high as 95 per cent of the rental, the 5 per cent deduction from the total rent being allowed by way of *Malikana* allowance. This was the first attempt to carry out to its logical conclusion the theory of the State ownership of land.

The policy of exacting the utmost possible from land was bound to, and did, indeed, defeat itself. Within ten years after the Regulation of 1822 Lord William Bentinck had to reduce the State demand from 83 to 66 per cent. and fix a period of 30 years during which a settlement was incapable of revision or enhancement§. Martins Bird was appointed to make a new settlement on this basis;and his labours of nine years(1833-1842) laid the foundation of the present Land Revenue system of the United Provinces. He started by making a summary of all the land in a given area, and included every field within the area in a map prepared for the purpose. A professional survey was then made showing separately the cultivated and uncultivated lands. Then followed the most arduous portion of the work. The land tax for an entire area was fixed,to be apportioned finally, among the villages comprised within the area. Though the rule of 66 per cent of the rental was adopted, and previous assessments, the nature of the soil and crops were taken into consideration, the determination of the rental was none the less a guess-work, depending very much upon the personal bias of the settlement officer. The idea

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* Revenue Letter of 16th September 1820.

† Minute of July 1st 1819.

‡ Hence the designation of Mahalwari settlement.

§ Regulation 1833.

of a permanent settlement was abandoned: but Bird intended and desired to make this settlement permanent at least in those areas which were already fully cultivated.

This settlement was made more regular by the "Directions to Settlement Officers" drawn up in 1842 by Thomason, the Lieutenant—Governor of the Province in 1843-53. The Settlement was finally completed in 1819 and was approved of by the Directors in their despatch of August 13, 1851. The total Land Revenue demands and collections in Northern India in the last ten years of the settlement operations were :—

Year.*		Demand.	Collection.	Year.		Demand.	Collection.
1838-39	..	4,55,899	3,630,215	1843-44	..	4,319.415	4,110,514
1839-40	..	4,120,668	3,565,281	1844-45	..	4,345,882	4,128,744
1840-41	..	3,764,262	3,470,402	1845-46	..	4,301,837	4,200,341
1841-42	..	4,161,903	3,883,357	1846-47	..	4,307,700	4,232,122
1842-43	..	4,391,890	4,048,812	1847-48	..	4,292,166	4,248,582

The only defect of this assessment was that the fixing of the Land Tax was uncertain and excessive. Article 52 of Thomson's directions had indeed defined the net produce clearly enough, but the demand of 66 per cent. humane as it was compared to the previous demand of 83 per cent, left but little to the smaller cultivators. Hence for the next settlement revised rules were issued, in connection with the resettlement of the Shaharanpur and the most famous of them. Rule 36, runs :—.

> "The assets of an estate can seldom be minutely ascertained, but more certain information as to the average net assets can be obtained now than was formerly the case. This may lead to an over assessment, for there is little doubt that the two-thirds, or 66 per cent, is a larger proportion of the real average assets than can ordinarily be paid by Proprietors, or communities in a long course of years. **For this reason Government had determined so far to modify the rules laid down in paragraph 52 of the directions to Settlement officers as to limit the damand of the State to 50 per cent of the average net assets.** By this it is not meant that the Jumma of each State is to be fixed at one-half of the net average assets. but that in taking these assets with other data into consideration the Collector will bear in mind that about one-half, and not two-thirds as heretofore, of the well ascertained net assets should be the Government demand."

This rule is now the basis of Land revenue settlement of India in all provinces where the demand is not permanently fixed.

(D) LAND REVENUE IN BOMBAY.

Relatively speaking the Province of Bombay came much later under British rule, though the earliest English settlements in India were on the Western Coast. All through the eighteenth century the expenditure of Bombay habitually exceeded the revenue.

* These figures are taken from Dutt's India under the Queen, p. 46. It is difficult to give the figures for these Provinces continuously from their conquest as for a long time they formed part of the Presidency of Bengal. It is only since 1835 when they were separated that it is at all possible to compile separate figures. **This factor probably explains also a part of the later-day variations in Provincial revenues—the constant shifting of territories.**

This Table shows the Revenue and Expenditure of the Bombay Presidency during 1792 to 1857

Year.		Land Revenue. £	Other Revenue. £	Total Gross Revenue. £	Gross Expenditure. £
1792-93	..	79,025	157,530	236,555	844,096
1793-94	..	82,050	212,686	294,736	906,745
1794-95	..	70,238	242,252	312,480	823,910
1795-96	..	64,085	213,511	277,598	783,057
1796-97	..	39,724	276,213	315,937	932,394
1797-98	..	38,872	299,317	338,189	998,169
1798-99	..	37,007	337,530	374,537	1,230,315
1799-1800	..	31,364	384,299	415,663	1,577,182
1800-01	..	45,130	241,327	286,457	1,432,832
1801-02	..	54,571	252,421	305,992	1,414,825
1802-03	..	68,015	292,531	359,546	1,410,253
1803-04	..	305,861	252,787	558,648	1,895,483
1804-05	..	384,740	303,808	715,548	2,338,279
1805-06	..	471,344	375,142	848,486	2,761,296
1806-07	..	388,536	384,333	772,859	2,474,209
1807-08	..	417,186	353,505	770,691	2,372,142
1808-09	..	427,033	313,243	740,276	2,062,814
1809-10	..	396,482	295,432	691,914	2,081,671
1810-11	..	437,108	321,264	758,372	1,557,165
1811-12	..	433,785	308,941	742,726	1,542,485
1812-13	..	420,323	267,466	687,789	1,493,262
1813-14	..	400,802	358,350	759,152	1,589,329
1814-15	..	488,998	330,206	819,204	1,615,200
1815-16	..	467,777	351,039	818,816	1,937,430
1816-17	..	498,102	382,303	860,405	1,902,460
1817-18	..	868,407	434,398	1,302,445	1,885,786
1818-19	..	1,143,041	517,159	1,660,200	2,492,193
1819-20	..	1,078,164	499,769	1,577,932	2,395,844
1820-21	..	1,818,314	582,998	2,401,312	3,197,366
1821-22	..	1,761,910	1,093,830	2,855,740	3,609,894
1822-23	..	1,551,592	1,722,855	3,274,447	4,264,448
1823-24	..	1,607,088	1,182,462	2,779,550	3,228,150
1824-25	..	1,208,735	576,482	1,785,267	3,279,398
1825-26	..	1,627,237	635,156	2,262,393	4,007,020
1826-27	..	1,873,427	715,556	2,588,983	3,975,411
1827-28	..	1,817,873	424,452	2,542,325	4,033,477
1828-29	..	1,722,335	601,467	2,331,602	3,652,786
1829-30	..	1,585,432	838,001	2,421,433	3,600,841
1830-31	..	1,650,061	891,075	3,541,136	3,594,472
1831-32	..	1,395,891	700,452	2,098,243	1,416,079
1832-33	..	1,411,986	683,354	2,125,340	2,662,741
1833-34	..	1,629,580	662,627	2,292,207	2,660,037
1834-35	..	1,544,183	642,751	2,186,934	2,591,244
1835-36	..	1,719,895	704,549	2,424,444	2,572,067
1836-37	..	1,842,759	863,103	2,705,862	2,999,878
1837-38	..	1,858,525	730,040	2,587,565	2,914,857

The land revenue system in the annexed territories as well as the whole organisation of the preceding Governments of the Peshwas gave prominence to the village community. The Government dues were collected through the Patels or the headmen of the villages, who were hereditary chiefs holding their land and getting their fees in virtue of a grant generally made by the Moghul rulers of the country. Under the famous *Mirasdari* tenure the Deccan Ryots were proprietors of their estates on condition of paying a fixed land-tax to the Government. Mount Stuart Elphinstone, the first Governor of the Province, issued his instructions to the Collectors and Mamlatdars in his letter of July 10th and 14th, 1819. The basic principles were "to abolish farming but otherwise to maintain the native system, to levy the revenue according to the actual cultivation, to make the assessment light, to impose no new taxes, and to do none away unless obviously unjust; and, above all, to introduce no innovations.*"

The various district administrations were then allowed to gather their own experience, and on the submission of the reports together with the minute of Mr. Chaplin the Commissioner of the Deccan in 1822 (20th August), Elphinstone ordered a gradual survey and assessment of the whole presidency. He ordered once again that the authority of the village officers and the ancient rights of the cultivators should be preserved. The idea of survey settlements was approved of by the Directors, and they were therefore commenced (1824-28) by Pringle. The settlement of Land Revenue was to be based on the principle of Munro in Madras, *i.e.*, 1/3rd of the field produce being taken for the State. † Pringle's assessment

> "was based on a measurement of fields, and an estimate of the yield of various soils, as well as the cost of cultivation; the principle adopted being to fix the Government demand at 55 per cent of the net produce, ‡ But the measurement was so faulty, and the assessment so heavy that "From the outset it was found impossible to collect anything approaching to the full revenue §."

The system was eventually abandoned and a resurvey ordered in 1835, carried out by Goldsmith and Wingate whose twelve years' labours ended at last in a regular settlement. They abandoned the attempt to fix a standard or ideal assessment by discovering the yield from the soils and then fixing a certain proportion as

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* Elphinstone's "Report on the Territories conquered from the Peshwa" October 1819.

† In a work published in 1807 and called "Journey from Madras &c. Dr. Buchanan gives some interesting calculations relative to the evidence of the land-revenue in Madras.

He says:—

	For a field of poor quality. £ s. d.	Best quality. £ s. d.
Land Tax	0 12 8½	
Collection charges	0 1 3¼	0 16 10
Seed	0 9 4½	0 9 4¼
Expense of cultivation	0 9 4¼	0 9 4½
Interest	0 1 11	0 1 ¾
Landlord	0 1 ¾	0 8 6¼
Cultivator	0 7 8	1 5 6¾
Total ..	2 3 5½	3 10 8¾
Land Tax	32 %	24 %
Expenses of cultivation	46 %	28 %
Cultivator	22 %	48 %

‡ Bombay Administration Report 1872-73 page 41.

§ Ibid.

Government demand. They * adopted the simple expedient of ascertaining the average character and depth of soil in each field, and classing it accordingly; no less than nine gradations of valuation being employed for the purpose. In fixing the rates of assessment they were guided by purely practical considerations as to the capability of the land and the general circumstances of the Districts. That is to say after classing the soils into nine different qualities they fixed the assessment of the district, after such inquiries as "the present condition of the agricultural classes, the state of the particular villages, the amount of the Government realisations, the prices of produce and similar considerations." † The revenue demand from the districts thus fixed was then distributed among the villages and fields separately, though the assessment was fixed for a term of 30 years. The basis for the assessment was not the produce of the lands but the value of the land. In the letter of October 17, 1840, the Settlement officers wrote.

> "It appears to us that a proprietory right in land can only be destroyed by the imposition of an assessment so heavy as to absorb the whole of the rent; for as long as the assessment falls in any degree short of the rent, the portion remaining will give a value to the land, and enable its possessor to let or sell it, which, of necessity, constitutes him a proprietor." ‡

And in their still more celebrated joint report of 1847, which has now become the basis of the Bombay Land Revenue system, they wrote:—

> "The cultivator's title to the occupation of fields is indestructible while he continues to discharge the assessment laid upon them; though his engagement for each be annually renewed. By placing the assessment on each field, instead of on his whole holding, he is enabled, when circumstances make the course desirable, to relinquish any of the former, or to take up others which may be unoccupied, so as to accommodate the extent of his liabilities to his new means. The fixed field assessment for the term of 30 years, introduced by our surveyors, thus secures to the cultivator the advantages of a thirty years lease without burdening him with any condition beyond that of discharging the assessment for the single year to which his engagement extends."

The only weak point in this system was that the actual assessment depended on the judgment of the revenue superintendents instead of being fixed by law unalterable, and though Wingate used his powers with moderation it cannot be expected that all officers would be equally endowed with his tact and sympathy.

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* Ibid page 42.

† Classification of lands under Bombay Settlement

Class.	Annas.
1	16
2	14
3	12
4	10
5	8
6	6
7	4½
8	3
9	2

Land of 1st order deep black to dark brown soil, uniform structure 1¾ to ¾ cubit depth.

Land of second order, uniform but coarser structure, lighter colour, less depth.

Land of third order, coarse and gravelly loose, light, brown to grey 1 to ¾ cubit depth.

‡ Goldsmith and Wingate's letter of October 1840, in reply to Sadar Board's letter

(E) THE PUNJAB LAND REVENUE.

The Punjab was the last Province, if we except Oudh which was annexed in 1856, added to the dominions of the East India Company. Its assessment could scarcely be expected to be completed within the ten or twelve remaining years of the Company's rule. The history of the Punjab Settlement we must, therefore, defer to a later section. Here it would suffice to observe that under the indigenous government of Ranjit Singh. the principle of assessment was to take one-half of the gross produce of the soil. In practice the collection averaged between one-third and two-fifths. The collections, it must be observed, were made in kind, not in money. The British Government introduced the system of cash payments, the assessment being one-third of the gross produce. Sir John Lawrence wrote to Nicholson:—

> "Assess low leaving fair and liberal margin to the occupiers of the soil, and they will increase their cultivation, and put the revenue almost beyond reach of bad seasons. Eschew middlemen. They are the curse of the country everywhere."

In spite of this injunction however, the assessment was increased from £82,000 in 1847-48 to £1,060,00 in 1850-51. And as the prices were falling, the collections in cash proved very onerous. Sir J. Lawrence perceived the harsdship, and so in a few years he reduced the Land Tax of the Punjab from one-third to one-fourth and then to one-sixth of the gross produce. In spite—or perhaps because of these reductions the revenues of the Punjab increased in 1856-57 and 1857-58.*

	Demand.	Collection.
1856-57	£ 1,485,000	£ 1,452,000
1857-58	£ 1,465,000	£ 1,452,000

The regular settlement of the Punjab was based on this rule of taking one-sixth of the produce of the land. Under the system described by J. S. Mill :—

> "One and the same man is usually absolute proprietor and generally the sole cultivator, though he may occasionally lease out a few fields to the tenants. He is saddled with no rent. He has to provide for the cost of cultivation and for the Government demand; the rest of the produce he may devote to the maintenance of his family and the accumulation of his capital. But these men, well maintaining their individuality, do not belong to this village communities........................ ....The British Government has from the first decided on levying the tax on money payments assessed for a number of years. The present proprietors compound with the State for a fixed period, such assessment and compounding being technically called a settlement. But the proprietors do not engage individually with the Government, but by villages..
> Primarily each man cultivates and pays for himself, but ultimately he is responsible for his co-parceners and they for him, and they are bound together by a joint liability. **The Punjab system, therefore, is not Ryotwari, nor Zamindari, but the Village System.**"

B. OTHER SOURCES OF REVENUE UNDER THE EAST INDIA COMPANY.

It was ordained by the Charter Act of 1813 † that the account showing the Territorial Revenue and Expenditure under the East India Company, should be separated from their commercial accounts, that the former should be applied to

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* Punjab Administration Report,
First Report in 1852.

† 53 George III c, 5, 155.

(1) Military Expenditure,(2) Civil and Commercial establishments and to the payment of interest on the Indian debt; the latter to be applied (1) to the payment of bills of exchange and the current payment of other debts; (2) the payment of dividends and (3) to the reduction of the Indian debt or the Home Bond Debt. The Company's trade profits had averaged a little over a million sterling from 1765 to 1820. Thereafter they fell rapidly till at the time of the final abolition of the Company's trading monopoly in 1833, they were much below £50,000.

The following table shows the income of the East India Company from the other sources of Revenue, besides the income derived from land. Upto the end of the eighteenth century the revenue from other sources, in all the dominions of the Company, scarcely exceeded the revenue derived from land alone. And, though as the Government became settled, the revenues from other sources began to increase, the land-revenue, upto the end of the Company's rule, contributed more than one-third of the total revenue.

TOTAL OF OTHER REVENUES.

Year.	£	Year.	£
1792-93	4,312,227	1815-16	5,593,935
1793-94	4,228,642	1816-17	5,877,722
1794-95	3,829,056	1817-18	6,012,186
1795-96	3,742,112	1818-19	5,968,428
1796-97	3,957,357	1819-20	6,196,448
1797-98	4,190,582	1820-21	7,656,052
1798-99	4,685,617	1821-22	8,073,891
1799-1800	5,608,539	1822-23	9,588,901
1800-01	6,263,364	1823-24	7,720,945
1801-02	7,716,743	1824-25	7,694,774
1802-03	9,167,653	1825-26	7,388,844
1803-04	8,791,257	1826-27	8,484,958
1804-05	10,345,370	1827-28	9,108,560
1805-06	10,522,976	1828-29	9,168,565
1806-07	9,887,079	1829-30	8,390,113
1807-08	10,483,950	1830-31	8,680,759
1808-09	10,189,266	1831-32	6,726,905
1809-10	10,369,050	1832-33	6,995,986
1810-11	10,875,041	1833-34	6,823,119
1811-12	11,826,081	1834-35	14,802,929
1812-13	11,445,315	1835-36	7,608,353
1813-14	12,624,499	1836-37	7,941,405
1814-15	5,547,986	1837-38	8,187,077

The principal sources of revenue, besides the Land Revenue, were the revenues from Salt, Opium, Abkaree or Excise, Customs, Stamps and the Moturpha tax, abolished in 1853 except in Madras. The system of direct taxation was almost unknown, unless we regard the Land Revenue as an instance of direct taxation.

The Moturpha tax, universally detested while it lasted, was a tax on trades and professions embracing weavers, carpenters, workers in metal, salesmen, whether shopkeepers or road side peddlers, some paying imposts on their tools, others for permission to sell the most trifling articles of trade, or the simplest tools of artisans. The collection of the tax involved endless difficulties and occasioned a great deal of oppression. After the Parliamentary enquiries, preceding the last renewal of the Company's charter, the tax could not be maintained, especially as its total yield even in Madras did not exceed £100,000 a year. A more suitable and simple system of direct taxation was reserved for the new Government of India to commence. The other sources of revenue with which we are now familiar, the income from Railways and Irrigation works, Post Office and Telegraphs, Forests &c. and other similar items were as yet unknown or insignificant. The last years of the Company's Government did, indeed, witness the commencement of Railway enterprise. In order to make up the guaranteed minimum of interest, Government had to pay the deficit instead of receiving any surplus from the Railway Companies*. But by far the most interesting portion of the history of Railways and Irrigation Works belongs to the period when the Crown was directly responsible for the Government of India; and hence we may quite conveniently and approriately defer that subject to the later sections of this work. With regard to those other items of revenue, such as the Forests,Posts and Telegraphs or Excise, the definite scientific policy, clearly conceived and generally enforced, could not be expected in an age when the chief statesmen and administrators were occupied in more absorbing, if perhaps, less beneficial subjects. These also may, therefore, be considered in another place.

We shall therefore describe briefly in this section those three sources of revenue, which prominent under the Company; are as prominent under the Crown, and in which there is more than a suspicion, that the policy of the Company is continued, in all essential particulars, by the Government under the Crown.

I. SALT REVENUE.

The East India Company had acquired a monopoly of the supply of salt in Bengal, sometime in the eighteenth century. Lord Clive had used this monopoly to facilitate the introduction of those reforms in the civil administration of the newly acquired territories, which were indispensable, but which would have been impossible if the greed of the Company's servants had not been appeased in some

* Amounts paid by Government on account of Guaranteed Interest.

Year.	East India Railway.	G.I.P. Railway.	Madras Railway.
1849	5,602	..	..
1850	17,471	3,063	..
1851	37,185	6,319	..
1852	45,234	16,310	..
1853	52,071	22,825	..
1854	88,884	25,002	9,703
1855	195,770	30,259	18,115
1856	297,390	60,370	42,510
1857	354,511	116,612	81,139
1858	433,968	175,289	109,267
	1,528,046	456,049	260,784

way. He, therefore, set aside the profits of the salt monopoly to form a fund accumulating at compound interest, and used for paying a bonus to the Company's servants. With the settlement of the conditions of public service by Lord Cornwallis by the institution of the covenanted Civil Service, 1793, the profits of the salt monopoly reverted to the Government. Different systems were adopted in different provinces in order to secure this revenue. In Bengal, salt was prepared by the Company's agents * and a duty of Rs. 2-8-0 per maund of 82 lbs. was added to the cost of production before fixing a selling price.. (The salt obtained from the Punjab mines was subject to a duty of Rs. 2 a maund, while salt from the Native States of Rajputana had to pass the notorious Inland Customs line and pay a duty of Rs. 2 to Rs. 2-8-0 per maund before it could be sold in the British territories.) In Madras, salt was formed from sea-water by the simple and cheap method of evaporation. The Company could, therefore, afford to sell in the Southern Presidency salt at Re. 1 per maund, and yet obtain a considerable margin of profit. In Bombay also the private manufacturers were allowed to remove the salt from the pans on paying a duty of 12 annas per maund, which, therefore, made up the salt revenue in that Province The reason why the incidence of salt duty on the coastal provinces was apparently so low as compared with the interior is to be found not merely in the cheaper production of sea-water salt than of the salt raised from the mines, but also because the regions on the coast were exposed to the competition of the foreign article. The Company levied an import duty of Rs. 2-8-0 to Rs. 3 a maund on all salt brought into India from beyond the seas. The object was, of course, to protect the indigenous producer against outside competition. The imports of the articles from Chesire and other parts of England were not, however, prevented or even discouraged owing to the mistake of the Company in adding to the cost price of the Bengal salt the expenses of collecting the revenue before adding the duty and fixing the cost price, which thereby enabled the English importer to undersell the local producer.

It was deposed by Mr. Alwin before the Select Committee of the Commons that the nett salt revenue of the Company was £8,00,000 in 1793 and £1,300,000 in 1844; the total salt manufactured in this period was over 200 millions maunds and the total revenue during the same period was £60,000,000.

Elsewhere are discussed the economic principles which ought to govern the imposition of duties for revenue purposes on such an article of prime necessity; and an attempt is also made to show how far those principles are carried out in India. The criticism directed against the salt monopoly of the Company's government usually took the form of deprecating any revenue from such a source, and, failing that, urging the manifold abuses of a system under which prices were fixed arbitrarily and unduly high, and collectors were exposed to the strong temptation for oppression. Smuggling was profitable and therefore inevitable; dangerous and therefore popular and fashionable †.

* Evidence of Prideaux. Commons. Fourth Report 1853.

† See the Petitions and Memorials against the salt monopoly from Bengal' Bombay and Madras quoted by Dutt, "India under the early British Rule" and "India under the Queen."

2. OPIUM MONOPOLY.

The Revenue from Opium was the result of a more rigid, though, perhaps, at least in India, a less obnoxious monopoly. It was more rigid because Opium was a natural monopoly of India, and therefore a strong Government could make its monopoly complete more easily than in the case of such an article as salt. It was less obnoxious because the bulk of the Opium revenue was paid not by the Indian —but by the Chinese consumer. Whatever may have been the indignation in the minds of English Puritans about the Opium traffic of the East India Company, the Indian people did not find it altogether so hurtful as the salt monopoly. Opium was comparatively speaking an article of luxury ; and if its constant use was likely to be dangerous, it was all the more a duty of Government to stop its consumption by a heavy duty. We have, however, discussed elsewhere the economics and politics of this subject, so that here we shall content ourselves by merely describing in outlines the plan adopted by the Company's government for collecting the revenue.

In the Company's territories, poppy was chiefly cultivated in Bengal. No one was allowed to cultivate except under an undertaking to deliver the juice to the Government at a fixed price. The juice was then refined and manufactured into opium, in the two factories of Patna and Benares; and was then sent down to Calcutta to be there sold by auction. The government revenue consisted in the difference between the selling price realised in the auction sale and the cost price, including the payments to the cultivators, and the expenses of the factories. The bulk of the Opium revenue thus came from Bengal. Among the other provinces only Bombay could show any considerable Opium receipts. But these were the result, not of a monopoly as in Bengal, but of a transit duty levied on the export of Opium from the Native States of Rajputana and Central Provinces for shipment at Bombay or Karachi. Before the conquest of Sindh, the Native States' product passed through that Province and evaded the Company's Customs Houses. But after 1843 Opium revenue in Bombay increased considerably. It was levied at the rate of Rs. 400 (afterwards raised) on every chest of 123 lbs.

3. CUSTOMS REVENUE.

Besides the uneconomical and wasteful Inland Customs line, the sea customs duties levied at the ports were collected under a variety of acts and at rates shown in the table*.

*** Indian Customs Tariff 1858.**

	Import Duty.
Books British	Free
Books Foreign	7½ %
Cotton and silk Piece goods British ..	5 %
,, ,, Foreign	10 %
,, ,, thread, twist yarn British	3½ %
,, ,, Foreign	7 %
Horses and other animals	Free
Marine stores British	5 %
,, ,, Foreign	10 %
Metals British	5 %
Metals Foreign	10 %
Beer, ale, liquors	5 %
Salt, Bengal	5/- per maund
,, Madras	6/- ,, ,,
Spirits	3/- a gallon

(*Contd.* to next page).

The maximum duty levied by the Indian Government never exceeded 10 per cent. On the other hand, England, before she had finally given up the protectionist policy, adopted since the reign of Elizabeth, in 1846-1860, had imposed import duties on Indian articles at as high a rate as 71 per cent., when she did not altogether prohibit the import of certain articles such as silk manufactures. Another table shows the duties levied by the English Government on the Indian produce†. We need not pause here to dwell at length upon the disastrous results to the Indian industries of this protectionist policy in England. The melancholy tale has been only too often and too well told by the witnesses, mostly Englishmen, before the various Parliamentary Committees of Enquiry at each successive renewal of the charter. The late Mr. R. C. Dutt's Economic History of India furnishes ample information—though it might appear one sided at first reading—of the gradual decay and ruin of Indian industries, as much by the new methods and machinery of business, as by the strong protection to domestic industries granted by England. We may but quote a few remarks of List—the German Economist—which explains the policy of England :—

> "Had they (the English Statesmen) sanctioned the free importation into England‡ of Indian cotton and silk goods, the English cotton and silk manufactories must of necessity soon come to a stand. India had not only the advantage of cheaper labour and raw material, but also, the experience, the skill and the practice of centuries......The effect of these advantages could not fail to tell under a system of free competition................Accordingly, England prohibited the import of the goods dealt in by her own factories,—the Indian cotton and silk fabrics. The prohibition was complete and peremptory. Not so much as a thread of them would England permit to be used."

III.—THE PRINCIPAL CHANNELS OF EXPENDITURE.§

The expenditure of the Company in India rose from £6,940,833 in 1792-93 to a total of £41,240,571 in the last year of the Company's existence. The analysis of 65 years of the Company's expenditure shows that the principal channels were:-

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Wines and liquors	2/- a gallon
Tea	10 %
Woollens British	5 %
" Foreign	10 %
Manufactures	5 %
Miscellaneous	3½ %

British Tariff.

	1812	1824	1832
Ornamental cane work	71 %	50 %	30 %
Muslins	27½ %	37½ %	10 %
Calicoes	71 %	67½ %	10 %
Other cottons	27 %	50 %	20 %
Goat wool shawls	71 %	67½ %	80 %
Lacquer ware	71 %	62 %	30 %
Mats	68⅓ %	50 %	20 %
Raw silk	2⅔ % per lb. plus 4 %	4/- per lb.	10 per lb.
Silk Manufacture	Prohibited	Prohibited	20 %
Taffetas	Do.	do.	30 %
Sugar	£ 9-13-0 per cwt. Or 65 %	£ 8-8 per cwt. or 300 %	£ 1-12-0 per cwt. or 60 %

† It must be noted that in some cases the duties levied in the first instance at the English ports were relatively small if the goods were brought to the Ports only in passing. But if the goods were meant for Home consumption the duties were subsequently raised very much.

‡ The duties were r[illegible] during the Mutiny Cp. Trotter.

§ For [illegible]res relating [illegible]e Total Expenditure of the East India Company between 1792-3 to 1857-8. See Table on p. 2 ante, [illegible]

1. MILITARY EXPENDITURE.

(1) Every considerable increase in expenditure in any year as compared to a previous year is explained by the extraordinary expenditure caused by a war. Thus the wars of Lord Wellesley had doubled the total expenditure between 1798 and 1805. Lord Hastings' wars had added 50 per cent. and the Burmese wars of Lord Amherst accounted for another 20 per cent addition as compared to the previous record. It would not be always easy following a war to effect considerable retrenchment to revert to the previous figure. For if the war has resulted in no conquests it would render any considerable retrenchments out of the question. Hence it is that we find little, if any, reduction after the unnecessary and extravagant war with Afghanistan (1838-42). And even if the war results in a substantial territorial gain—as was the case with the wars of Wellesley and Lord Hastings, Hardinge and Dalhousie—the conditions under which the Company's Government had to work in the conquered Provinces, made any return to the standard expenditure of peace-times impossible. The expense of garrisoning the country, and organising *de novo a* strong civil government on an entirely new plan could not very well accord with the peace standard of expenditure. In this long stretch of time, therefore, we have only one considerable period of retrenchment when a creditable and successful attempt was made to reduce expenditure—increased by a war—to its normal peace time basis. When Lord William Bentinck received charge of the Government of India in 1828, the total gross expenditure in India was £24,163,013. When he left India in 1835, it was £16,684,496 with every prospect of further reduction. It was lower than any figure in the previous twenty years, though in the course of that twenty years, the Bombay Presidency had been annexed as also parts of Burma and Assam. All these additions were necessarily a heavy drain on the Central Treasury. Again, Lord William Bentinck had introduced several important reforms in the machinery of civil government, which also involved additional expenditure. This, however, is not the place to discuss the Indian financial administration under Lord William Bentinck; and, we shall, therefore, merely content ourselves by remarking that in the whole history of Indian financial administration, Bentinck's achievements are unique, not merely because of the reduction in total expenditure, but because the reduction was carried out without any impairment of the administrative machine, and in fact with considerable and costly additions. Not even Wilson's efforts after the Mutiny or Lord Minto's efforts after the Welleslyan wars can compare in magnitude of savings or improvements in administration with Lord William Bentinck.

The only attempt made to remedy the constant growth of military expenditure, which ought to be mentioned even in this brief sketch, was the brilliant idea of Wellesley to bring about a net-work of subsidiary alliance[illegible]l over the country. The idea merited a better fate than what eventually befell [illegible] must, indeed, be admitted that the system in the then state of India wo[illegible] to t[illegible] [illegible]arried out, have involved endless occasions for interferences, and inn[illegible] [illegible]retexts for War

(for which the author of the system would not perhaps have been altogether sorry). We cannot, however, refuse to recognise the grandeur of the idea which, if it had succeeded, would have given the Company a dominating military position at an insignificant cost; and which, by establishing one dominant authority, would have rendered war practically impossible. All other efforts for getting rid of this incubus of military expenditure, such as the reorganisation of the army and its reduction and redistribution, belong to a later period and would, therefore, be discussed in a more appropriate place.

2. CIVIL ADMINISTRATION.

The expenses of civil administration rank next in importance after the military expenditure under the Company's Government. We have no detailed analysis, such as we now have presented to the Legislative Council every March, of the various branches of civil expenditure under the Company. We cannot therefore apply the general economic canons of public expenditure to the Company's expenses. The civil expenditure of the Company increased with every increase in the territories of the country. It consisted almost wholly of the maintenance of the administrative departments. The activities of public improvement and national development such as education, communications, sanitation, irrigation works—all belong to a later period, though perhaps in every one of these the Company had made a beginning. Thus the first education grant was made in 1813; railways were commenced in 1848; Irrigation works in the South and North had intermittently attracted official attention. But well considered and far reaching plans in all these departments and in several others were necessarily of later origin. The Company's system of expenditure, therefore, is open to the criticism—common, perhaps, to all European systems of public expenditure of the early nineteenth century under the domination of the ideas of "*laissez faire*"—that beyond maintaining peace and order, it did nothing to develop the resources of the country or improve the lot of the people.

Another criticism not quite so obvious as the one already urged concerns the duality of the spending authorities. While the revenues of the Company were raised almost wholly in India, a considerable proportion of the same were spent in England. This division in the spending authorities inevitably made the control over expenditure very lax. The system was perhaps unavoidable in the first stages of the Company's rule. But the reorganisation of the Company's service by Lord Cornwallis and the institution of the covenanted Civil Service led to an increase and intensification of the evil which might well have been avoided in later years. The practical exclusion of Indians from the higher branches of administrative employments necessarily resulted in an ever-increasing influx of English officials, whose pensions and allowances steadily increased the expenditure of a part of Indian revenues in England. As the evil has in course of time become still more acute, its fuller discussion must be deferred to a later section.

3. THE COMPANY'S INVESTMENT AND THE HOME CHARGES.

A resolution of Parliament in 1813 had provided that "the whole or part of any surplus that may remain of the rents, revenues and profits, after providing for the several appropriations, and defraying the several charges before mentioned, shall be applied to the provision of the Company's investments in India, in remittance to China for the provision of Investments there, or towards the liquidation of the debts in India, or such other purposes as the Court of Directors, with the approbation of the Board of Commissioners, shall from time to time direct."

What exactly the Investment of the Company in India was, has been very well described by a select Committee of the House of Commons in their 9th report in 1783, in the following words :—

"A certain portion of the revenues of Bengal has been for many years set apart in the purchase of goods for exportation to England, and this is called the Investment. The greatness of this Investment, has been the standard by which the merit of the Company's principal servants has been too generally estimated. This main cause of the impoverishment of India has been generally taken as a measure of its wealth, and prosperity. Numerous fleets of large ships, loaded with the most valuable commodities of the East, annually arriving in England in a constant and increasing succession, imposed upon the public eye, and naturally gave rise to an opinion of the happy condition and growing opulence of a country, whose surplus productions occupied so vast a space in the commercial world. This export from India seemed to imply also a reciprocal supply by which the trading capital employed in those productions was continually strengthened and enlarged. But the payment of a tribute and not a beneficial commerce to that country wore this specious and delusive appearance."

The Company's Investment went on increasing, no matter what the economic condition of the country was in any given year. It has been estimated to have accounted on an average to £1,250,000 nearly every year until the limits placed on the Company's trade in 1813. And when the Charter Act of 1813 had disabled the Company from trading in India, the place of the Investment was more than taken up by the Home Charges. The *table* appended shows the regular growth of the Home Charges from £2,446,016 in 1814-15 to £6,162,043 in the last year of the Company's rule.

TABLE SHOWING EXPENDITURE OF THE E. I. COMPANY IN ENGLAND.

Years.	£	Years.	£	Years.	£
1814-15	1,445,266	1828-29	1,949,760	1842-43	2,458,193
1815-16	1,217,397	1829-30	56,316	1843-44	2,944,073
1816-17	1,142,421	1830-31	1,446,581	1844-45	2,485,212
1817-18	1,122,291	1831-32	1,476,655	1845-46	3,044,067
1818-19	442,489	1832-33	1,227,536	1846-47	3,066,635
1819-20	1,303,019	1833-34	1,293,637	1847-48	3,016,072
1820-21	1,177,727	1834-35	2,162,868	1848-49	3,012,908
1821-22	1,335,921	1835-36	2,109,814	1849-50	2,750,937
1822-23	1,344,821	1836-37	2,210,847	1850-51	2,506,377
1823-24	1,273,478	1837-38	2,304,445	1851-52	3,262,289
1824-25	1,207,174	1838-39	2,615,465	1852-53	3,011,735
1825-26	1,914,293	1839-40	2,578,966	1853-54	3,264,629
1826-27	2,467,522	1840-41	2,625,766	1854-55	3,529,673
1827-28	1,960,570	1841-42	2,834,786	1855-56	4,492,470

It was deposed by a witness of considerable experience in Indian affairs before a Select Committee of the House of Commons in 1840 that a small proportion—about 1/5th—of these Home charges represented the value of stores supplied by England to India*. The remaining sums were absolute charges upon the revenues of India for which no return whatever is made to india.

"It is a curious calculation," he added, "to show that estimating the sums of money drawn from British India for the last thirty years at three millions per annum, it amounts at 12 per cent compound interest to £ 723,994,971. Or if we calculate it at two millions per annum for fifty years, it amounts to the incredible sum of £8,400,000,000." As this, however, is the most widely controversial point in the whole field of Indian Finance, we must leave it at this stage in this brief introduction.

IV.—THE PUBLIC DEBT AND ITS MANAGEMENT.

The finance of the East India Company being in a state of chronic deficit, as already remarked, the Company's officers met every deficit by borrowing. Usually they borrowed from the English Government or the Bank of England; and in the eighteenth century they had to pay interest at between 6 and 10 per cent. But they more frequently borrowed in India, as the Government began to be more settled. At the time when Lord Hastings had completed the conquest of the Bombay Presidency (1820-21) the total debt in India was Rs. 27,24,77,630 and in England £5,762,888 with an interest charge Rs. 1,63,15,400 in India and £253,247 in England. This debt was not finally paid off till 1858-59. Meanwhile the Government borrowed between 1823 and 1863 at 5 per cent, as a rule, though between 1824 and 1835 small sums were borrowed even at 4 per cent. The bulk of the 5 per cent debt was converted to 4 per cent. but owing to the shock of the Mutiny, the lower rate could not be made. Further efforts for re-organizing the public debt belongs to a later period.†

The War finance under the Company's Government was a marvel of simplicity. Wars, in spite of their almost perennial existence, were regarded as "extraordinary" occurrences. And, under the comfortable assurance that these "extraordinary" charges could not recur, they were met out of borrowed monies

* Answer of Montgomery Martin to Question 4137.

1855-56	..£ 3,264,629
1856-57	..£ 3,529,673
1857-58	..£ 6,162,043

† Table showing debt of the East India Company.

1812-13	£30'100,695
1817-18	£29,992,760
1822-23	£28,268,188
1827-28	£35,436,500
1832-33	£35,842,926
1837-38	£31,698,034
1842-43	£35,769,418
1847-48	£43,788,955
1852-53	£49,667,987
1857-58	£59,943,814
1858-59	£71,557,869
1859-60	£58,104,266
1860-61	£98,036,688

whenever the annual revenues did not suffice to meet the expenditure. When Lord Cornwallis left India the interest bearing debt of the Company was a little over £7 millions. By the end of the eighteenth century, it had risen to ten millions, to be more than doubled in the next five years by the Wars of Lord Wellesley and raised to 27 million in 1807. The figure remained almost stationary upto 1824 the wars of the Marquis of Hastings being paid for by the surplus revenue from the Province of Bengal. The Burmese War of Amherst was a miserable chapter of mistakes and extravagance and added £·3 millions to the debt. Lord William Bentinck found the public debt at £30,000,000 in 1829 and his six years of administration continually reduced it, so that on the eve of the disastrous Afghan War it was £26, 947,000 (30th April 1836). This was the permanent registered debt of India. In addition there were Treasury Notes and Deposits and the Home Bond debt of about three millions so that the total debt on April 30th 1836 was £33,355,536. From that time onward, the growth of the Public debt of India has been rapid and uninterrupted, though not quite alarming for reasons given elsewhere. The marginal table shows the growth of the debt in the twenty years immediately preceding the assumption of the Indian Government of the Crown........

V.—ADMINISTRATIVE ORGANISATION.

The financial administration under the Company suffered from the absence of any organisation. The passing of Pitt's India Act in 1783 had created a double authority in England in the Court of Directors, and the Board of Commissioners or the Board of Control as it is more commonly known in history. While all administrative authority was vested in the Court of Directors including the management of the Finances of the Government of India—the final control remained with the Board of Control, ultimately represented by a Cabinet Minister who was President of the Board. The object of instituting this controlling authority was probably the laudable desire to keep a commercial body, like the Court of Directors of the Company, from abusing the territorial powers in India. In course of time, however, as far as the finances of the Company were concerned. this division of authority was by no means fraught with the happiest results. The slight shadow of justification that there was while the Company was a commercial body disappeared with the abolition of the Company's trading privileges in 1813. And after 1833, we have the curious spectacle of the Directors standing up for economy in India, even against the wishes of the Cabinet. The greatest financial blunder and disaster of the Company's rule—the Afghan War—was achieved by the Board of Control in the teeth of the opposition of the Directors ; and as to confess the blunder frankly and make reparation for it handsomely would have been unbecoming to a Minister of the Crown in the early Victorian Era, the affair was hushed up as best they could by making the Indian Government bear the burden of the folly of English ministers.

But, if financial mismanagement was inevitable owing to a division of authority in the powers of England, there was nothing in the financial administration of India by the Company to deserve unmitigated praise. Passing over the period of commercial activities, 1600-1747 as also over the short inglorious interval when every servant of the Company who was not a robber was a fool, in the years when the political responsibilities of a governing body were fully impressed upon the rulers, no attempt was made to place the financia organisation on a more stable footing. The Governor-General and the councillors were all alike equally responsible for every question of administration; and finance was only an incident in daily routine of administration. Even when in 1833 it was thought necessary to enlarge the Governor-General's council, by the addition of a special member for the purpose of making rules and regulations, no one deemed it necessary to tell off a member specially for finance. The elaborate procedure which now characterises the Indian Budget and Financial Statement was unknown, and perhaps impossible, under the Company. And hence the financial wheel in the complex administrative machinery worked anyhow, somewhat on the same lines as the domestic accounts of many a private individual; so much income, so much expenditure; if the balance was a deficit, the amount must be got somehow; if a surplus it must be spent anyhow.

This description may be unjust to men like Bentinck and Metcalfe, Elphinstone and Munro, Lawrence and Hardinge. But great as these men were, and fully—even painfully—alive to the financial mismanagement going on before their eyes, they were powerless to remedy permanently the root evil of the whole system. They might, indeed, try in their short period of supreme power to enforce good maxims of finance; but the evil revived with accumulated venom no sooner the strong hand had been removed.

One of the reasons which made the evil so acute in India was the excessive centralisation effected in 1773 and confirmed in 1783, before there were developed the means to make good the dictates of the Central authority. The Supreme authority vested in the Government of Bengal by the Regulating Act could not fail to be galling in the two sister Presidencies with their long traditions of equal and independent existence. The first Marhatta War was an early indication of the resentment which the Bombay Government not unnaturally felt against its wanton supercession. And in the years that followed, this rankling sense of injury never quite disappeared altogether. Though the traditions of independence were supplemented by the requirements of legislation, the sense of responsibility had vanished altogether; and the Central Government was helpless to check Provincial extravagance, even when it did not itself set the pace for heedless expenditure. The Provincial Governments were theoretically subordinate both in raising and expending their incomes, according to the minute, meticulous regulations laid down by the Imperial Government. Often indeed the purely local income was far below the exclusively local expenditure, and they had to depend on the assistance doled

out by the Central authorities. But the three or four men who made up the Government of India had neither the knowledge nor the energy to control the great Provincial Satraps; for a man like Elphinstone or Metcalfe cannot fail to speak with a greater authority than an Amherst or an Auckland. The result was that while the Provincial Governments had no interest in collecting their revenues or economy in spending, the earning as well as the spending departments, which had necessarily to be left in the hands of the Provincial authorities, suffered from the negligence of local officers as much as from the meddlesome interference of the supreme authority.

VI.—THE REFORMS OF WILSON.

Into this chaotic mass, rendered still more confused by the last titanic struggle, order was attempted to be brought by James Wilson, India's first Financial Minister.* The last three years alone had added nearly thirty million pounds to the public debt of India, and there was a gloomy prospect of endless deficits ahead. The new Minister for India, Sir Ch. Wood, and the first Viceroy of the English Crown both agreed that the evil could be only lessened by entrusting the task to an expert financier. Wilson had started life as a poor apprentice to a small shop-keeper in a Scotch town. Thanks to a powerful intellect and unwearied exertions he had raised himself step by step on the ladder of fame. His commercial career suffered a set-back in the great disaster of 1837, but he passed from the counting house to Parliament, from the city to the Fleet Street. As editor of the Economist, he had taken a most prominent part in the most burning questions of English politics of his time—the Repeal of the Corn Laws, the reorganisation of the Bank of England in 1844, the abolition of the Navigation Laws. In the Government of the country also he had his share. Upon the general questions of finance, Taxation and currency, Wilson, though an authority himself, was gratified to find his views in unison with those of Sir Charles Wood; and as regards their application to Indian conditions, he received his instructions from the head of the India Office before he left the shores of England, never to return there alive.

Wilson presented his first Budget in February 1860. The Parliamentary traditions that this departure recalled were fully lived up to by the author of the Budget system in India. We shall reserve for later sections the great reforms Wilson proposed in the Indian Tax system, as well as the hard struggle he made for retrenchment of an ever increasing expenditure. Here we shall only mention the general principles he laid down with regard to the management of the Indian Financial System.

He started by pointing out the discrepancy between the estimates for 1859-60 laid before Parliament by the Secretary of State in the August preceding and his own figures as then presented to the council; and, though there were sufficiently good explanations in this case, such as remission in taxation, errors in calculation

* The financial Department of the Government of India was created in 1843-44. Cp. Wilson's first Budget speech. But no separate minister was appointed till 1859.

would be inevitable, not only because the figures were very considerable but because the revenue had to be collected by so many different Provinces. Besides, the sources of revenue were also uncertain. The ideal, always held before the English Chancellor of the Exchequer to make his Budget estimates of a year tally as nearly as may be with the final accounts of the year, was, Wilson felt, almost impossible in India. For though, the system of public accounts in India did admit of considerable improvements—and Wilson suggested a special inquiry in the matter; and there was ample room for the introduction of those salutary maxims of English Finance,—such as that all income and outgoings of any year must be recorded, credited and debited in that year alone—the inherent weakness of the Indian Financial system made the Chancellor's task of budgetting in advance exceedingly and peculiarly difficult. Land revenue, the greatest source of public income, was at the mercy of wind and weather. Opium revenue, another considerable item, was well-nigh a lottery, the market being so completely dependent on speculation. And, though he does not expressly mention it, he must have felt that the whole tax system of India was singularly inelastic. There was not one item of revenue which, at a pinch, could be easily increased to tide over an emergency.

Admitting these peculiar difficulties of Indian finance, Wilson, however, was not blind to the weakness in management so characteristic of Indian Finance. The Mutiny, he calculated had, cost in three years £30,547,448; and even allowing for all increase in income and reduction of expenditure, he feared a deficit of £6,500,000. He showed by figures that since the cessation in 1813 of the Company's trading privileges, there had been only 13 years of surplus—aggregating £8,895.,437 and 33 years of deficit aggregating £72,195,416. These figures could not but convince him that,

"The normal state of Indian Finance may be said to be deficiency of income and addition of debt."

Elsewhere in the same statement he said,

"Loans may be justified in times of war, and as the consequonce of war for a year after; but even then they should not be exclusively relied upon. But the theory of borrowing during war time," he added, "involves some necessity to reduce debt in times of peace....a precept which had been more honoured in the breach than the obedience in India."

To carry out this theory, Wilson's only hope was in the expanding resources of India. Like many other English statesmen of his day, Wilson believed:

"England does not and never has exacted tribute from India. Every rupee of taxes raised in India is devoted strictly to Indian purposes. If England expects or desires advantage from India, it is only in a way entirely consistent with the true interests of India."

He, therefore, wanted to arrange the fiscal policy of India with a view to suit what was then honestly believed to be in the best interest of any country.

Besides the alterations in the fiscal policy, which will be considered more in detail later on, Wilson tried to readjust expenditure and revenue. In making retrenchments in the former the Government of India, had to consider the point below which retrenchment could be carried consistently with good—or, as it afterwards came to be understood in the official mind,—efficient government. And though considerable retrenchments were made in the civil and military expenditure, it was still in excess of revenue. The additional revenues Wilson proposed to raise according to principles which had never till then been clearly laid down.

> "All taxation," he thought, "must be based on the postulate of perfect equality and justice as between the different classes of the community,. The European could henceforth no longer expect to be accorded a special treatment merely because he was not an Indian. And the canon of equality was laid down too broadly and clearly to allow the agriculturist to benefit at the expense of the industrialist. Moreover all taxation must be in accordance with sound commercial and financial policy."*

By this our first Finance Minister meant, of course, the free trade doctrine then most in favour with the English statesmen and economists, which may be taken to be the first beginning of the Free Trade policy for India. Lastly we may mention the **third** principle laid down by Wilson, that

> "The taxes in India ought not to be such as would go against the religious beliefs and sentiments of the people."

This canon, though a little too conservative, was nevertheless inevitable for the Financier who had just witnessed probably the greatest cataclysm within his memory stirred up chiefly on religious grounds.

Summarising then the changes made by Wilson we find that:—

(1) He for the first time introduced the Budget system in Indian Finance. Difficult as it was to make fairly accurate estimate of revenue and expenditure in advance under the Indian conditions, it was nevertheless of immense service in bringing order out of chaos. The Government knew approximately their own position in advance. But for an unexpected calamity or windfall the actual realisation would correspond substantially to the estimate. The extension of the system of budgetting to the more important spending departments like the Army or the Public Works tended in the same direction. Henceforth Government could plan for spending more or less on approved scientific principles, and distribute their expenditure, when necessary and advisable over a series of years, making at the same time adequate provision for meeting the expenditure. Wilson perhaps did not foresee all the results of his new departure; but we may notice in particular two at least of the unexpected consequences of this alteration. The subsequent activities of the Government of India for the economic development of India in perfect keeping with the ideal of benevolent despotism were facilitated, if they were not directly caused, by the Budget system. And though we can easily imagine

* Budget Speech of Wilson 19th February, 1860.

that the first Budget speech of Wilson must have proved as amusing as it was a novelty to the veteran councillors of the Viceroy, the Indian Council began insensibly to model itself on the English Parliament. It was a far cry from the first Budget speech of Wilson to the day when Indians should claim the power of the purse for themselves. But the impetus was given. Interest in financial questions was aroused. Financial control was perceived to be the indispensable condition of the democratic state, and the absence of that control the hall-mark of absolutism. Anglo-Indian officials did not always take kindly to the Budget system, and though after Wilson's changes it was too late to refuse to prepare a Budget altogether, the accompanying speech and discussion they frequently avoided by giving the Budget in the form of a minute published in the Gazette.* During the whole tenure of the Finance Ministership of Sir William Muir, not a single speech or discussion took place (1874-77), while Sir J. Strachey's superior mentality condescended only twice out of five years to invite discussion. Major Baring, afterwards Lord Cromer, had not the same good reasons that Sir John had to avoid too much publicity. But even Cromer and all his successors took advantage of the system of minute writing in order to escape unwelcome criticism. But the original force was not exhausted, and the Indian Councils Act of 1893 made Budget discussion compulsory. The opinions of the Legislative Council were not made binding upon the Government even by the more liberal reforms of 1909. But the Budget discussions of statesmen like Sir Pherozshah and Mr. Gokhale could not but abound in useful hints even to a most indifferent and contemptuous Finance Minister.

(2) Another of Wilson's momentous changes, so far as the general organisation of Finance was concerned, was the emphasis he laid on testing each item of revenue and expenditure, taxation and borrowing in the light of the principles of economic science. Though to-day our faith in the immutability of economic principles is not as solid and unquestioning as that of the contemporaries of J.S. Mill, it cannot but be regarded as a healthy change in India of his day. The generations that have since grown up have doubted the wisdom of a Free Trade policy of the Indian Government; questioned the soundness of our Railway finance, our Famine Insurance scheme, our Direct and Indirect Taxes, our Productive and Unproductive expenditure. Even the fundamentals have changed. But still the removal of financial questions from the considerations of the need of the moment or the caprice of the Governors is undeniably a service. It is easier to counteract for a self-sufficient bureaucracy principles than precedents.

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* Whenever this course was adopted it was defended on the ground that there was no fresh legislation wanted and consequently no need to present the Budget to the Council.

PART II.

CHAPTER I.

PUBLIC EXPENDITURE IN INDIA 1859-60 TO 1919-20.

VII. GENERAL CONSIDERATIONS AFFECTING PUBLIC EXPENDITURE.

The theory of public expenditure has been almost completely ignored in England owing to the dominant school of English economists of the last century being all saturated with the doctrines of "Laissez faire." The great liberal financiers did, indeed, lay stress on the need of watching carefully the growth of public expenditure*; but their views were the result rather of a desire for retrenchment than any clear perception of the proper principles governing the distribution of public expenditure. They held the State to be a necessary evil whose scope of activity could not be too jealously restricted. Adam Smith had laid down three chief duties of the Sovereign, in which, along with the protection of subjects and maintenance of order,

> "The duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual or small number of individuals to erect and maintain."

found an honourable place.† But the doctrines more in accordance with the facts of the English financial history in the Nineteenth century was that laid down by by Sir H. Parnell who held that the State should not incur any expenditure except.

> "for securing some public object, which could not be had by any other agency and even then "any expenditure incurred beyond what necessity absolutely requires for the preservation of social order and for protection against foreign attack is waste‡."

It is a logical conclusion from such ideas that any expenditure for objects other than the maintenance of order and protection was a dissipation of national savings or impairing the capital strength of the community.

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* If there be any one danger which has recently in an especial manner beset us......that danger has seemed to me to lie during recent years chiefly in an increased susceptibility to excitement, in our proneness to constant and apparently boundless augmentations of expenditure......I do not refer to this or that particular charge or scheme........But I think that when in an extended retrospect we take notice of the rate at which we have been advancing at a certain number of years, we must see that there has been a tendency to break down all barriers and all limits which restrain the amount of public charge. **For my part I am deeply convinced that all excess in the public expenditure beyond the legitimate wants of the country is not only a pecuniary waste . . . . . but a great political and above all a great moral evil.**" Gladstone Budget speech April 1861. See also Peel's advice to Gladstone as quoted by Buxton and reproduced by Bastable "Public Finance"

† Wealth of Nations P. 285.

‡ "Tract for the Times" quoted by Adams "Science of Finance," p. 57.

An adequate theory of public expenditure, disregarded in England, was elaborated in Germany with all the characteristic thoroughness of the German mind. Considering the State to be a new organism different from the totality of its citizens, and endowed with ideals of its own, they developed maxims in conformity with those ideals to regulate the outlay of public moneys. With its sovereign power to command the wealth of each individual citizen, the State must so apportion its expenditure as to develop fully the national institutions according to the accepted. ideals of National development. These ideals, it is true, are constantly changing. The Militarist State, for instance, would consider its military expenditure on entirely different principles from those of the Industrial State. Besides, these Ideals are often not the spontaneous expression of the national life of any given community. More often than not they are imposed upon it by force of circumstances, by environment, by historical accidents. Though hitherto developed on the lines of Non-Intervention, the instinctive Imperialism of a prosperous people has asserted itself in the United States of America, till one wonders if the age of Imperialism can ever be ended. France is another example of a progressive democracy, highly civilized, compelled to maintain a scale of military expenditure inconsistent with every principle of that civilization, except the legacy of "Revanche."* The ideal of Nationality itself has in the past caused an amount of waste incompatible with the degree or benefit received, disproportionate to the sentimental gain of an ethnic unity. We may hope, indeed, that after the last world war, saner ideas of international amity will emerge from the welter and chaos of the "European Anarchy" of the last century; but it is doubtful, judging from the terms of the treaty imposed by the victors upon the vanquished, if we are even now altogether free from the clouds of War. The perception of the dignity of collective life, the subordination of the individual to the community, the collaboration of each to the common good of all, indispensable for a proper organisation of public expenditure, requires a more spiritual ideal of the State than the one inculcated by the rampant commercialism of the West, a more spiritual education than the Bourgeois Board School or the Aristocratic University could allow.

It must also be noted that if we cannot adopt or evolve ideals of State life independent of our environment and our traditions, still less can we realise them irrespective of the material resources of the community. Public income is everywhere a share,—large or small,—of the total wealth of the community; and public expenditure, whatever its urgency, cannot be undertaken always regardless of the question of cost, of considerations of ability. The United States of America can repair the misfortune of a past completely barren of all artistic creation by spending millions on the treasures of the pen and the brush and the chisel of

* The attitude of France during the Versailles Conference of 1919 and subsequently raises a lively apprehension whether this nation of otherwise level headed peasant-proprietor and small traders has not really been driven mad by the delirium of a Victory. Just as before the last War British Navalism and German-Militarism constituted a standing menace to the peace of the world, so to-day French chauvinism more dangerous in victory than in defeat, holds forth a terrible threat to the peace of world. There can be no schemes of all-round disarmament so long as the old Imperialist ideas are suffered to determine the position and prospects of the peoples of the world.

other countries; but the Chief of Sikim will find it difficult to maintain the great wealth his people have inherited in the shape of the artistic creations of the past.

We may then generalise that public expenditure is directed by the ideals of national life adopted or imposed upon a community, and limited by its available resources. There is, however, one exception. Expenditure, calculated to improve the material resources of the community, may be incurred, even if its own unaided resources would not permit it to undertake these works, from capital borrowed from its neighbours. The actual political structure of a community may also exercise a modifying influence on the general principles stated above. If, for example, there is a division of authority for spending, between local and central or between State and Federal powers, the division would affect not only the amount spent but also its adjustment, and even its direction.

A fuller theory of public expenditure would be out of place in this work, even if there was no chance of its being misapprehended. It must be recognised, moreover, that any such theory will be inadequate always to provide the practical financier with clear cut rules in the guidance of his department. The appropriations from the public purse are likely to be abused. But the remedy for the abuse is to be found not so much in a rigid code of Financial maxims, (which is illusory when framed, if not impossible to formulate) but in an intelligent public opinion and in an efficient organization of control. The observations of a general nature incorporated in this section are intended as a guide to intelligent criticism, and have no pretension to be considered unimpeachable axioms. As regards the organisation of the control over the spending authority and the mechanism of proper accounting and auditing we shall deal with it in another section.

VIII.—CHARACTERISTICS OF PUBLIC EXPENDITURE.

EXPENDITURE AND EFFICIENCY.

The total amount of public expenditure being ultimately dependent on the wealth of the country, it might be felt as though the same canons which apply to the expenditure of private incomes apply to that of the public revenues. It is, indeed, as much true of the individual as of the State that the excess of expenditure over income, if it continues for a long time, might cause anxiety. But in spite of this similarity there are many and more radical differences. Every private individual of intelligence and regular habits ought to make at the commencement of each year an estimate of his revenue and expenditure, on the model of the public Budget. As a rule private individuals are spared the trouble as their income and expenditure are very nearly fixed and equal. But in the case of the State such an estimate in advance is not only useful: It is indispensable. The sums raised and spent by a first class modern State are so vast that without a careful estimate serious mistakes, confusion and waste would be unavoidable.

Again, an individual is almost always absolute master of his income. He need not render any account. If he finds his expenditure habitually outrunning his income, the dread of the prison, or of the refusal of his Banker any more to accommodate him, would automatically induce him to cut his coat according to his cloth. Governments on the contrary receive and spend on behalf of others—the Tax-payer. Having little interest in economy and every inducement to be prodigal in the interests of the ruling class, they are more likely to err on the side of profusion. In the case of the individual, moreover, the side of the balance sheet over which he has least control is the side of income. In the public Budget the part which is considered to be least admitting of variation, is the side of expenditure. Hence while an individual must regulate his expenditure according to income, the State, generally speaking, finds the determining factor in its expenditure.

There are still others and more vital points of difference between the individual and the public Budget. The laws of his Society effectively restrict the individual in his search for an income, but the sovereign State admits of no restraint on its actions save those of its own will. The objects, besides, for which the State makes such claims are incapable of an objective appraisement. Its area of operations is not restricted by any considerations of profit or returns. If a proper balance is established between the receipts and expenditure, it is all that the State desires. If there is a difference, the State would more frequently have an excess of Expenditure than a superabundance of revenues.* A repeated surplus of Income over Expenditure gives rise to possibilities of waste compared to which the evils of temporary borrowing to adjust the balance would be insignificant.

In his great work on Finance M. P. Le Roy-Beaulieu has shown, by comparative statements, how steadily in the last hundred years the expenditure of European countries has been increasing. An indiscriminate condemnation of every increase in the scope of State activity leads many a publicist to explain the increase on the ground of the natural improvidence and maladministration of democracies. Without wavering in the least in one's faith in democracy, it may yet be admitted that there are factors in democracies not exclusively contributing to economy in expenditure, or even to its proper adjustment and just distribution. But even so it would not explain this steady increase of a century. The causes are deeper, more radical. The population under the Government of the leading, civilized States of the world has become more numerous, more refined, more conscious of wants, better aware of the means of fulfilling them, less careful, possibly, of the means and their cost. On the other hand, causes tending to reduce expenditure are insignificant, if not non-existing. In the influence tending to increase public expenditure special mention must be made of the rise in prices. Though more marked since the beginning of this century, it must be taken to be present all

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* Cp. Adams "Public Debts" (pp. 78-83) arguing in favour of deficits. Also, Dewey, "Financial History of the United States" describing the difficulties of the United States with their large surplus during 1885-1890.

through the last century, ever since, in fact, the Industrial Revolution was accomplished in England. The rise in prices not only demands a revision of the salaries of public servants; it makes the charges of such items as the equipment for the Army and the Navy relatively more costly, and the payments made by the State for every kind of Stores more heavy'.* Another factor leading to an increase of expenditure which ought to be specially mentioned is the growth of public indebtedness and the consequent increase in the burdens of interest. Much of the debt of the European and American Governments is due to a legacy of past wars or misgovernment, though, before the last war, an appreciable proportion of the German Public debt was due to works of Public Utility. There is the greatest difference between the debt incurred for the wasteful object of a war and that occasioned by a well-planned scheme of national development, even though it should happen that by their very nature such works are apt to be antiquated and useless in a limited period of time. It is conceivable that as the canal was superseded by the Railway, so the Railway might be superseded by the Airoplane or the Airship. In spite of this danger such works, while they are in operation, bear their own burdens and still leave a margin. And if we may adopt for the sake of illustration the language of commerce, with a proper depreciation fund, the capital invested in such concerns is bound to be reprovided by the accumulated surplus from the profits of these very concerns.†

Among the negative causes for the increase of expenditure the place of honour must be given to the relaxation of control and vigilance, due partly to a growing prosperity in which people become indifferent to such notions of economy suggestive of straitened means, but largely to the mismanagement characteristic of new Governments or unsettled States. The facility with which a strong Government can now-a-days raise funds by taxation or loans is also a factor tending in the same direction. And democracies, particularly in federations, encourage the representatives of each small unit to secure the greatest possible portion of the resources of the large unit that he possibly can, and so the cumulative effect of these votes are in favour of increased expenditure. To notice this factor is not necessarily to condemn it. An enlightened democracy, with a truer and more comprehensive realisation of the functions of the State, may find itself compelled to expand its sphere of public utility which would inevitably lead to increases in expenditure.‡

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* The effect of a rise in prices are visible in Indian Budgets ever since the time of the Civil War in the United States when the Indian products began to find a more favourable market in England. Finance Minister after Finance Minister are complaining. In the latter quarter of the last half century our price level in India was very much disturbed by the fall in the value of silver in terms of gold.

† The late Mr. Gokhale often said from his place in the Legislative Council that he was not afraid of the public debt of India, as the greater portion of it was secured by works of undoubted value. It is doubtful if his judgment would have remained unaltered by the recent additions to the debt for the purposes of the European War. See the chapter dealing with the debt of India.

‡ In India the conception of the duties of the State favoured by the officers of the Company was naturally a reflex of the dominant idea in England. A misconception about the causes of the Mutiny has to some extent perpetuated the ideal of State neutrality in India. With the exception of some works of material improvement such as the irrigation, canals and the Railways, the Government of India has not yet accepted the duty of educating its subjects nor combating with the problem of poverty. The Beggar Committee Report published a short while ago and relating to the Bombay Presidency considers the beggar in the light of an offender, and the Report can, therefore, be scarcely regarded as a step to solve the problem of poverty.

We have examined at some length the causes governing the increase of public expenditure in order the better to apply the principles to the analysis of the Indian Public Expenditure. But the discussion would be incomplete without a mention, however brief, of the causes tending to a reduction of the Public Expenditure. Every measure of the conversion of the Public Debt or the reduction of the Interest is to that extent bound to diminish expenditure*. Redemption of any portion of the Public Debt, though in the year in which the operation of the Redemption is carried out the total expenditure, may seem to be inflated, ultimately acts in the same direction. Administrative reforms and simplifications in Financial machinery have an identical effect. The transfer of a number of spending Departments from the Central Government, which can but ill control them, to the local governments, more capable of a proper appreciation of the activities of these departments as also more likely to check them, has a similar effect, though it may be that the greater attention paid to these departments would lead under the pretext or necessity of improved efficiency, to an increase in the expenditure in the long run.

A point which we have not mentioned yet in this connection, rises out of the oft-repeated claims of the Government that all increase in expenditure represents an improvement in efficiency. But the test of efficiency in administration, particularly financial administration, lies not so much in a mere increase of the total expenditure: not even in a niggardly refusal to spend on any occasion; but in a well-distributed expenditure likely to benefit all departments and all sections of the community according to the ideals of the day. The States, therefore, which most frequently allege this reason for the increased expenditure are not always the best in the distribution of their Public Income. In the review which follows of the Public Expenditure of India an attempt will be made to show how far such a claim is tenable on the part of the Government of India.

IX. THE PUBLIC EXPENDITURE CONSIDERED GENERALLY.

The following figures show the growth of public Expenditure in India during the last sixty years.

Year.	Amount in £	Year.	Amount in £	Year.	Amount in £
1858-59	50,191,690	1879-80	48,307,116	1900-01	65,136,375
1859-60	50,372,711	1880-81	52.648,968	1901-02	59,681,619
1860-61	46,749,986	1881-82	48,574,764	1902-03	52,228,871
1861-62	43,538,502	1882-83	46,390,963	1903-04	67,971,782
1862-63	42,974,340	1883-84	46.768.487	1904-05	67,656,879
1863-64	44.201.120	1884-85	46.992.199	1905-06	68,754,337

* Gladstone and Goschen carried out in the eighties important measures of Conversion sensibly reducing the burden of Interest in England. Their example was copied in India also. See for a fuller treatment the section dealing with the Public Debt of India.

1864-65	45,588,905	1885-86	47,973,174	1906-07	71.656,135*
1865-66	45,748,681	1886-87	49,132,270	1907-08	70,697,229
1866-67	44,108,227	1887-88	50,948,192	1908-09	73,494,245
1867-68	49,060,873	1888-89	50,747,052	1909-10	73,986,854
1868-69	55,305,793	1889-90	50,913,167	1910-11	76,746,786
1869-70	50,122,841	1890-91	51,985,887	1911-12	78,895.416
1870-71	49,396,068	1891-92	54,340,936	1912-13	83,754.964
1871-72	46,478,837	1892-93	55,345,944	1913-14	82,894.752
1872-73	47,907,517	1893-94	55,808,216	1914-15	82,942.936
1873-74	50,890,627	1894-95	56,938,729	1915-16	85,602.198
1874-75	49,587,575	1895-96	58,372.660	1916-17	98,050.430
1875-76	49,013,871	1896-97	57,878,912	1917-18	104,575,273
1876-77	57,649,340	1897-98	61,695,878	1918-19	127,078,153
1877-78	61,916,224	1898-99	58,298,081	1919-20	145,644,100R.E.
1878-79	44,941,413	1899-1900	58.714,731	1920-21	132,311,100B.E.

At the outset of a detailed study of the Public Expenditure in India there are several preliminary points which must be cleared up, and without which the subsequent remarks may not appear intelligible.

The most fruitful source of confusion in criticising a Indian Expenditure is the discrepancy between the figures of the total expenditure as well as of the individual items. As observed in the note to the preceding table figures compiled from documents of the same unimpeachable authority show great variations in the gross and in detail. Viewed in their proper historical perspective the variations may perhaps appear negligible. Certainly any sound criticism of the system of expenditure, which ignores these discrepancies, would not for that reason alone be considered unfair or misleading; but for purposes of comparison as much as for a comprehensive study these variations must be borne in mind and their causes ascertained in order the better to make comparisons :—

Among the reasons which explain these differences, perhaps the most important will be :—

(A) THE GROWTH OF NEW ITEMS OF EXPENDITURE.

or what is the same thing for our purposes, the sub-division of existing items into more than one distinct item. In his first Budget Statement Wilson showed the entire expenditure of £41,820,016 under the marginally noted 10 heads.

* Except for the last two years the figures refer to the accounts of each year. They are all given in £ the rupees being converted at £ 1=Rs. 10 upto 1898-99, and at the official rate of £1—Rs. 15 thereafter. This practice renders the figures unfit for comparison without serious modifications. But even these figures, though taken from the Official Finance and Revenue Accounts of the Government of India, differ from similar figures given by the late Mr. Dutt in his "India under the Queen" and taken by him from the Statiscal Abstract. This section deals with the causes of variations of a more general type but does not relate to such minute variations as the detailed figures for each year.

		£
1.	Cost of collection	7,317,845
2.	Interest (India)	3,035,667
3.	Military charges	18,460,240
4.	Stores (England)	1,004,940
5.	Marine charges	816,645
6.	Civil charges	8,898,890
7.	Marine stores	103,660
8.	Stationery, Mint &c ..	292,170
9.	Miscellaneous	1,839,981
10.	Railway interest	50,000

This crude way of stating the accounts of a Continent naturally could not be tolerated. Under the revision and reorganisation of the Financial system contemplated by Wilson and carried out by his successors, the total expenditure came to be stated the very next year under the 26 heads * mentioned below.

The changes made were :—

(1) Expenditure under each revenue head, occurring collectively in the previous year's accounts under the heading "Cost of Collection," was separately given, thus facilitating a comparison between the net revenue and the gross revenue under each head : this reform incidentally revealed many an abuse in the system of collection or demonstrated the futility of any given source of revenue or its unexpected success.

(2) Refunds and drawbacks made under the revenues, owing to excess of collection or special exemption or compensation, were also separately shown.

(3) Charges under Civil Departments were also analysed into the component parts with greater detail, with distinct mention of such departments as Law and Justice, Police, Education, Political Agencies.

(4) Allowances to the Native States under Pensions and Revenue compensation, and allowances to the District or other local bodies under special local legislation were also separately shown, but these have been, since 1869-70, mentioned again collectively under other heads.

(5) The Home Charges and the Charges under Public Works were given collectively, a full analysis of these being given as an appendix to each statement. In subsequent years both these items underwent frequent and considerable changes. The Public Works charge was complicated by the distinction between Ordinary and Extraordinary charges, between Capital and Revenue outlay, as also

* The 26 heads of the Second Financial Statement are :—

1. Refunds and Drawbacks.
2. Land Revenue Sayer & Abkaree.
3. Assessed Taxes
4. Customs
5. Salt
6. Opium
7. Stamps.
8. Post Office.
9. Telegraphs.
10. Mint.
11. Allowances to N.S. under treaties.
12. Allowances to Districts.
13. Army
14. Indian Navy
15. Public Works
16. Salaries and Expenses.
17. Law and Justice.
18. Police.
19. Education.
20. Political Agencies.
21. Superannuation.
22. Miscellaneous.
23. Civ. Contingencies.
24. Interest.
25. Home charges.
26. Interest on Railways.

owing to the distinction between the Civil and Military Works, or the separation of the Railways from other Public Works &c. Since 1875 the Home Charges have been shown under each head by splitting up the main financial statement into four columns respectively called India, Provinces, England and Exchange. The last item has disappeared since 1899.*

In the years that followed, the system of showing expenditure was continually reformed on the lines indicated above. In the foot-note below an attempt is made to show the items of expenditure in 1860-61, 1885-86 and 1915-16 †. The effect of such continual changes is inevitably to cause confusion in the accounts often leading to an appreciable variation in the total as well as in the figure of individual items. For while in one set of figures a particular item may have been omitted, in another it may have been included.

The present mode of showing the accounts of the Government of India has been standardised since 1900 when the currency question was settled. In fact after the great financial changes of Lord Cromer (then Sir E. Baring) under Lord Ripon the system was practically fixed, giving with the financial statement of

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* The exchange gains or losses during 1919-20 are not included here, as it may still be doubted whicher the new rates has come to stay. For further discussion of this question all-part the section dealing with currency

† Items of public expenditure in India in 1861, 1885 and 1915.

1860-61.

1. Refunds and Drawbacks.
2. Land Revenue, Sayer and Abkaree.
3. Assessed Taxes
4. Customs
5. Salt
6. Opium
7. Stamps
8. Post Office
9. Telegraphs
10. Mint
11. Allowances to Native States.
12. Allowances to Districts
13. Army
14. Indian Navy
15. Public Works
16. Salaries
17. Law and Justice
18. Police
19. Education
20. Political Agencies
21. Superannuation
22. Miscellaneous
23. Civ. Contingencies
24. Interest.
25. Home charges
26. Interest on Railways

1885-86.

Direct Demands on Revenue.

1. Refunds and Drawbacks.
2. Assignments and Compensation
3. Land Revenue (Collection)
4. Opium ,,
5. Salt ,,
6. Stamps ,,
7. Excise ,,
8. Provincial Rates ,,
9. Customs ,,
10. Assessed Taxes ,,
11. Forests ,,
12. Registration ,,
13. Interest on debt
14. Interest on other obligations
15. Post Office
16. Telegraph
17. Mint
18. General Administration
19. Law and Justice
20. Police
21. Marine
22. Education
23. Ecclesiastical
24. Medical
25. Political
26. Scientific and minor Depts. Miscellaneous Civ. Ch.
27. Territorial and Political pensions
28. Civil Furlough and allowances.
29. Superannuation allowances and pensions.
30. Miscellaneous
31. Stationery and Printing.
32. Famine Relief.
33. Constr. of Protective Railways.
34. ,, of Irrig. Works.
35. Reduction of debt.
36. Constr. of Railways.

RAILWAY REV. ACC.

37. State Railways.
38. Guaranteed Cos.
39. Subsidised Cos.
40. Mis. Expenses
41. Irrigation Major.
42. ,, Minor.
43. Buildings & Roads Mil. Works.
44. Civil Works.
45. Army.

1915-16.

The items are nearly the same as in Col. 2 except :—

(1) Posts and Telegraphs are given together, but No. 16 is left blank.

(2) The item No. 26 is subdivided into 26a and 26b, the former being Agriculture and the latter the old item of Scientific and Minor Departments.

(3) Item 37 is left blank but item No. 11 reproduces the old No. 37.

(4) Item No. 39 is merged into 38.

(5) Item 42a is added to show exp. on protective Irrigation works besides that charged to the Famine Relief Acct.

(6) Item 46a Marine is added and the old item 21 is changed into Ports and Pilots.

(7) Item 47 Mis. Works and 47a. special defence works have been added.

1885-86 the accounts of the preceding ten years incorporating the changes made in 1885.* At the present time the total expenditure of India is shown under 10 main and 48 subsidiary heads with the additional tables, one giving capital expenditure (in three heads) not charged to revenues, and the other giving interest on State Railways.

(B) CHANGES IN ACCOUNTS.

Another equally important and concurrent explanation of these changes or variations in figures concerns the more formal changes in accounts, relating, not so much to the addition of items or sub-division of groups, but to the proper treatment of each item from the point of view of accounting. This is more a point of auditing than of Public Finance proper. But without due attention to it, the public accounts will not be properly kept, prepared or presented. Owing to the absence of such attention the accounts under the Company showed considerable confusion† In fact a good proportion of the labour of reorganisation in the Finance Department which was undertaken by Wilson and his successors consisted of this mechanical side of proper adjustment of items in accounting. Owing to the absence of proper rules, it frequently happened that an apparent surplus was ultimately changed into a deficit by the excess of expenditure due to some important items not being regarded as expenditure for the year in which they were incurred being eventually decided by the final authority to be so treated. The most notorious Illustration of the kind is to be found in the unaccountable confusion of as much as 16 crores of rupees in the second Afghan war under the Finance Ministership of Sir John Strachey‡. In the system of accounts then in force which was regarded as responsible for the error, Sir E. Baring introduced radical changes. The Treasury officers were requested to furnish an abstract account to the Accountant

*. Evidence before the Welby Commission points to the existence of a "Green book" said to have been prepared in the India Office and endeavouring to recast the accounts of the expenditure of the Government of India from 1861-62 giving effect to all the changes made in accounts between 1860 and 1885. (See the evidence of Gokhale and of Dadabhai Naoroji)

† Sir J. Trevelyan in 1864 (Budget speech)
"The most important work of all is the revision of the general system of accounts and audit. The existing system was established by the East India Company on the good old mercantile double entry principle, but it has since been overlaid and confused by a variety of obsolete entries, Irrecoverable Balances, and above all, by a vast number of complicated and unnecessary Interpresidential and Interdepartmental payments and advances. In the course of the past year, the main principles whereby regularity and exactness have been established in the accounts of H. M's Government, have been introduced into the Indian accounts, such as the rule that estimates shall be taken for expenditure coming in course of payment within the year, and that everything shall be debited and credited to the accounts of the year in which the amount is received or paid; that the gross receipts shall be credited to the revenue and the gross charges shall be debited to the charges; that expenditure shall be provided for a final discharge in the estimates of each of the departments responsible for the general head of the service, and so forth.

‡ The history and nature as well as the official explation of this gigantic error—which in a democratic country like England would have meant a life sentence on the Public career of the minister responsible for it, if not anything worse,—may as well be given here briefly. The table in the margin shows the cost of the war as estimated at various dates, and as finally brought to book in the accounts of the Government of India. It needs but a glance to understand the extent and nature of the error. The official explanation tendered by Sir E. Baring in the Financial statement of 1881-82 considered the mistake to have arisen from attention being devoted exclusively to the classified and audited expenditure, while the issues from the Civil Treasuries to the Military Department were neglected. The total expenditure as shown above must also be added to the expenditure on the Punjab Northern State Railway which accounted for £1,019,000.

Afghan War Estimates of :—	£
February 1880	5,752,000
June 1880	15,000,000
October 1880	15,777,000
March 1881	16,605,000
Exp. for War 1881-82	2,100,000
Frontier Railways	1,477,000

General of the Province at the end of each month in a prescribed form*. The information thus obtained was to be telegraphed by the Provincial Accountant General to the Comptroller and Auditor General at Calcutta, in order to scrutinize and check the accounts. Every issue from the civil Treasuries was to be treated as expenditure and not wait until classified and audited. The relations also between the Comptroller and Auditor General and the Military Accountant General were altered so as to make the former† authority supreme in all departments as far as the methods of keeping accounts were concerned. He would be responsible only to the Finance Minister and through him to the Government of India. He had to keep a constant watch on the issues from the Treasuries on Military as on other accounts, and to keep the Government of India informed of the progress of expenditure. The Military Accountant General was to be given the status and powers of a Deputy Secretary for Finance in the Military Department, and required to keep a watch on the issues on account of the Military Department. Placed at the head of the Accounts department, the Comptroller and Auditor General was required to submit a report every year to the Government of India, comparing the Budget Estimates with the accounts, explaining the causes of the variations. In addition to these reforms, which came into force from 1st April 1881, Sir E Baring also suggested the establishment of an independent audit system to supplement the then existing departmental audit system, mainly on the ground that since the two functions of audit and account were by their nature distinct, they ought to be kept separate. The Government of India could not however approve of the suggestion chiefly because they contended that the particular error of the Afghan war estimates arose not from any defect in the system of audit in force in India, but from a misapplication of the system. The suggestion was for the time being dropped.

We have introduced in the present section this fragment at some length to illustrate the defects in the system of accounts which explain at least in part the variations in the final figures. A fuller description of the account and Audit system is given in the section dealing with the Financial organisation of this work.

C. UNCERTAINTY OF REVENUES AND EXPENDITURE.

Though not quite connected with the general argument of this section, mention may be made here of another factor accounting for the variations in the figures, —but of a totally different kind. Every financial statement of the Government of India contains figures for three years. For the year ending the 31st of March

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* Receipts, Rs.	Outgoings, Rs.
Civil Revenues	Civil Expenditure.
Debt and Remittance	Debt. and Remittance.
Post Office	Post Office.
Military Department	Military Department.
Public Works Department	Public Works Department.
Opening Balance	Closing Balance.

† This change in my opinion was inadequate as the Auditor General was to be a Civilian officer without any experience of the system of accounts. Would it not be a good reform to keep this branch open only to professional accountants or auditors or at least those members of the Civil Service who have had a professional training ?

of the year preceding that in which the statement is presented the final accounts are given, containing the actual income and the actual expenditure under each separate head. For the year about to close on the ensuing 31st of March the Revised Estimates are given, containing the actual figures for receipts and disbursements for 8 or 9 months and for the remaining 3 or 4 months as close estimates as the information at the disposal of the Finance Department would permit. These Revised Estimates differ in the total and in the individual items appreciably, and sometimes considerably, from the actual figures given in the accounts of the same year in the following statement, as also from the Budget Estimates for the same year. Finally for the year about to commence on the 1st April next the Budget estimates are given, prepared by calculation under each heading according to the existing sy tem as modified by the changes, if any are proposed, in the Financial Statement. Just as the revised estimates differ from the Accounts of the same year, so the Budget estimates differ very considerably from the Revised Estimates of that year and again from the Accounts of the same year. For each year, therefore, three different sets of figures are necessary.

The explanation usually offered for this triple variation is that the chief items of revenues in India, e.g., the Land Revenue, Salt, Customs, Opium, Railways &c., do not admit of a precise estimate in advance, owing to the yield depending very much on the character of the monsoon in the ensuing season, which, at the time—March—when these estimates are prepared, is an entirely unknown quantity. There is considerable truth in this allegation as far as the items of revenue are concerned, though even in that respect it must be remembered that:—(1) The construction of Irrigation works on a large scale in the last 15 years has made the apprehension of a complete failure of crops all over the country in one season extremely unlikely: hence the revenues depending on the prosperity of the landed classes is not so uncertain as it once could reasonably be alleged to have been. (2) The old uncertainty of yield from the Opium revenue no longer worries the modern Finance Minister, since he has no more to depend on the fluctuating demands of an external market, or the vagaries of internal speculation. That revenue has, since the treaty with China in1907, ceased to be a decisive factor in the Indian Budget. (3) Even the Railways no longer deserve the reproach of making the Indian Budget "A Gamble in Rains or Railways" as Sir Wm. Meyer once described it. It is true, the Railway income fluctuates, but the fluctuations, now that the Railways are an earning asset of the Government, are not so material as those of the once important Opium Revenue. Besides the variations under this item are not beyond the ability of the Government to control. It is not impossible to believe that the existing uncertainties in this head are due to the unwillingness to restrict what is assumed to be invariably a productive expenditure. All these points about the variations in the different revenue heads are more fully dealt with under the appropriate heads in the chapters dealing with the Revenues of the Government of India.

We may add here, a particularly interesting explanation of these triple variations in the Revenue and Expenditure figures of the Government of India. The Indian Chancellor of the Exchequer has had in the past bitter experience of the uncertainties of the Indian Revenues and the inability of the responsible authorities to check expenditure. Wiser by this, and preferring to be pessimistic in the expectations of the revenues and expenditure, they seem to have adopted since 1900 the fixed maxim of habitually understimating the revenues*. Perhaps it is a natural desire to demonstrate the excellence of their system that has led to this practice: perhaps the currency changes of 1898-99, required as shown more fully elsewhere, constantly growing surpluses. In any case the almost unbroken series of heavy surpluses since 1900 lends countenance to this view, and exposes the Financial Administration of India to the obvious criticism that more is taken from the people by way of taxation than is really required by the needs of the Government. Even admitting the common explanation about the uncertainties of Indian revenues we can scarcely explain away on that hypothesis the variations in expenditure.† The distributing factors in expenditure, which singly or collectively have upset the calculations in the past, may be grouped under the heads of (1) Famine, (2) Exchange and (3) War. As regards the first, in all the years of the current century there has not been a single year of scarcity comparable at all in its intensity to the great famine of 1899-1900, if we exclude

* In this respect the late Mr. G. K. Gokhale was an untiring critic of the Government. In his very first Budget speech (26-3-1902) Mr. Gokhale remarked "Indeed My Lord the more I think about this matter the more I feel......that these surpluses constitute a double wrong to the community. They are a wrong in that they exist at all—that Government should have taken so much more from the people than is needed in times of serious depression and suffering and they are also a wrong because they lend themselves to an easy misinterpretation and among other things render possible the phenomenal opticism of the Secretary of State for India who seems to imagine all is for the best in this best of all possible lands."

Mr. Gokhale explained the surpluses by the high level of taxation side by side with an artificial rise in the exchange value of the rupee. He reiterated his complaint year after year and at last in 1910 he proposed that all surplus should be devoted to projects of sanitary reform a measure of protest against the utter heedlessness of Financial authorities (See his speech in the Imperial Council 5-3-1910).

† Table showing surpluses (plus) or deficits (minus) in the accounts of the Government of India between 1861 to 1919.

Year.	Surplus or deficit. £	Year.	Surplus or deficit. £
1861-62 ..	—50.688	1891-92 ..	311,690
1862-63 ..	1,827,346	1892-93 ..	—555,658
1863-64 ..	78,347	1893-94 ..	—1 031,332
1864-65 ..	—193,527	1894-95 ..	462,073
1865-66 ..	2,766,068	1895-96 ..	1,022,666
1866-67 ..	—2,517,491	1896-97 ..	—1,136,682
1867-68 ..	—1,007,695	1897-98 ..	—3,578,807
1868-69 ..	—2,774,030	1898-99 ..	2.640.873
1869-70 ..	118,669	1899-1900 ..	2,774,623
1870-71 ..	1,482,990	1900-01 ..	1.670,204
1871-72 ..	3,124,178	1901-02 ..	1,951,627
1872-73 ..	1,765,672	1902-03 ..	3,067,994
1873-74 ..	—1,807,668	1903-04 ..	2,997,343
1874-75 ..	319,197	1904-05 ..	3,456,077
1875-76 ..	1,668,945	1905-06 ..	2,092,223
1876-77 ..	—2,182,778	1906-07 ..	1,589,375
1877-78 ..	—3,543,087	1907-08 ..	306,046
1878-79 ..	1,423,065	1908-09 ..	—3,737,710
1879-80 ..	—878,596.	1909-10 ..	606,641
1880-81 ..	—2,420,930	1910-11 ..	3.936,287
1881-82 ..	2,396,967	1911-12 ..	3,940,334
1882-83 ..	449,891	1912-13 ..	3,107,634
1883-84 ..	1,253,138	1913-14 ..	2.312,423
1884-85 ..	—257,631	1914-15 ..	—1,785,270
1885-86 ..	—1,867,818	1915-16 ..	—1,188,661
1886-87 ..	118,951	1916-17 ..	7,478,170
1887-88 ..	—1,352,554	1917-18 ..	8,087,074
1888-89 ..	24,679	1918-19 ..	—4,350,600
1889-90 ..	1,741,355	1919-20 ..	866,100
1890-91 ..	2,458,781	1920-21 ..	2,514,800

It will be noticed that there is an almost unbroken series of heavy surpluses from 1898-99 to 1913-14. The total net surplus during that period amounted to a little under £36 millions or Rs. 54 crores equal to the total provincial revenues in a whole year. Before that period the surpluses and deficits are almost evently balanced there having been 20 years of surplus totalling £23,834,468 and 17 years of deficit total £ 27,120-862 or a net deficit of £3,286,394.

from the calculation the famine of 1918-19.* The measures adopted for the prevention of Famine, open to criticism as they may be in other respects, are nevertheless successful so far as to render deaths from sheer starvation over a large area impossible. The history of the famine relief policy of Government of India is sketched elsewhere.† We are here concerned to point out that Famine as a factor of variation in the Budget Estimates and actuals has ceased to be of first rate importance. With the exception of the last great European conflict, there has been no great war. War Finance, like Famine Relief, is discussed in greater detail elsewhere. Its mention is made here merely in order to note that this second factor also cannot account for all the variations. As regards Exchange the appended table shows the loss through that source during the period that Exchange was a dominant factor. There are few sadder chapters in the history of Anglo-Indian Finance than that relating to the mismanagement of the currency question. A chapter is devoted in this work to outline the history of this question and showing the bearing of the Currency and Exchange Policy on questions of Public Finance. In this place we have to point how far the variations in the gold value of the rupee can explain the Budget variations and exonerate the authorities concerned from the attendant blame.

Year.	Remittance	Charge.	@d—Re.	Exch. Comp. Allowance.
1872-73	£ 14,537,693	£ 686,568	22.75	....
1873-74	,, 13,453,026	,, 901,878	22.35	....
1874-75	,, 10,974,185	,, 1,015,239	22.15	....
1876-76	,, 12,484,003	,, 1,434,486	21.62	....
1876-77	,, 12,827,510	,, 2,458,034	20.50	....
1877-78	,, 10,241,190	,, 2,270,135	20.79	....
1878-79	,, 15,959,884	,, 3,117,861	19.79	....
1879-80	,, 17,916,739	,, 2,957,244	19.96	....
1880-81	,, 16,013,784	,, 2,272,410	19.95	....
1881-82	,, 19,179,510	,, 2,512,739	19.89	....
1882-83	,, 16,451,481	,, 3,115,563	19.52	....
1883-84	,, 18,971,399	,, 3,360,341	19.53	....
1884-85	,, 14,393,518	,, 3,535,903	19.30	....
1885-86	,, 11,578,769	,, 4,289,810	18.25	....
1886-87	,, 12,325,576	,, 5,631,816	17.44	....
1887-89	,, 15,545,145	,, 6,049,368	16.89	....
1888-89	,, 14,392,794	,, 6,383,146	16.37	....
1889-90	,, 15,622,525	,, 6,757,923	16.56	....
1890-91	,, 16,130,916	,, 5,468,057	18.08	....
1891-92	,, 16,252,486	,, 7,200,880	16.73	....

* In the dearness of food stuffs and the general level of prices the 1918-19 famine was more severe than any known so far in history. But a great portion of that calamity was due to War conditions and the consequent export of food stuffs to the armies in Mesopotamia &c.

† To give one example the famines of the decade 1870-80 cost £14,607,000. For more detailed figures see the section dealing with the Famine Expenditure.

Year.	Remittance.	Charge.	@d—Re.	Exch. Comp. Allowance.
1892-93	£ 16,683,005	£ 10,287,290	14.98	....
1893-94	„ 9,677,561	„ 11,523,325	14.54	Rx. 619,468
1894-95	„ 17,053,384	„ 15,044,968	13.10	„ 1,239,275
1895-96	„ 17,835,481	„ 13,990,949	13.63	„ 1,327,632
1896-97	„ 15,789,407	„ 12,116,399	14.45	„ 935,176
1897-98	„ 9,017,194	„ 10,562,301	15.35	„ 685,865
		144,292,333		

Ever since the demonetisation of silver by European States in the seventies of the last century, it was clear that the Government of India, with their large gold obligations and all their revenues collected in silver, would be very heavy sufferers. They did not, however, take any steps to reduce or alter the character of these obligations. In fact after they had become aware of the annually increasing burden of exchange, they, instead of curtailing these obligations, went on adding to these obligations not merely by a continued system of large borrowings in England for the purpose of prosecuting the railways and other productive or non-productive works, but by a constant expansion of civil and military departments, all manned by Europeans with salaries paid in rupees and pensions paid in Sterling. In all the financial statements for which he was responsible, Lord Cromer.* emphasised again and again the need for reducing the Sterling obligations of the Government of India. And though he was primarily arguing only for Railway borrowing or for other capital enterprizes, the argument applied with still greater force to the increase of gold obligations through other causes. For while the railways had at least a pretence of being productive, and thus supporting their own burdens, most of the other expenditure—particularly the military expenditure—had not even a shadow of such justification. The steps that the Government of India did adopt, related to the change in the standard, and not to the fundamental cause of the increasing expenditure. It was, therefore, relatively unimportant whether or not these measures succeeded, for whether we accepted the gold standard, or kept the silver standard, or adopted an international bimetallism, or fixed by law the value of the rupee in terms of the sterling, the root cause would remain unaffected. And as if it was not enough that the Government had ignored the real cause of the trouble, that they had not made any effort to alter the character of their

N.B.—The figures of Remittance give the total remittance, which is not always equivalent to the Home charges or the Expenditure in England. They used to avoid, when the exchange was against us, sending more than was absolutely necessary. The present policy of selling Council Bills without limit is the result of fixing the Exchange after 1899. The net loss on the remittance in 25 years of disturbed exchange is 14½ crores of rupees. The charge column represents the net loss in a year due to Exchange.

The charge column includes the compensation given since 1893-94 to the officers of the Government of India, by way of an Indemnity for the loss through Exchange. The figures in the last column give these sums granted as Exchange Compensation Allowance.

The rate of Exchange is given in pennies per Rupee and is the average rate of all the remittance transactions during the year.

* Cp. His Budget Speech of 1881, 1882 and 1883.

For the increase of the Sterling debt and of the interest during this period, see the table of debt in the chapter dealing with it.

newer contracts and obligations, the Government proceded in June 1893 to add to the burdens and granted the Exchange Compensation Allowance.* The only argument that was ever advanced for such a one-sided measure was that a small section of the employees of the Government of India, who had to make regular remittances to England to support their families, found that it cost them more and more to make remittance to England as the value of the rupee fell lower and lower. For the benefit of this small, but articulate section in spite of falling revenue and increasing difficulties, Government undertook this additional obligation against all considerations of equity, economy or enlightened administration. (1) It was against justice and equity because the employees of the Government had no legal claim to this concession, as under their contract Government was bound to pay the salaries and emoluments of their servants only in rupees. The Government of India was scrupulously observing its contracts in spite of the heavy obligations. The pay of the British soldier in India had been fixed in terms of sterling, and though that involved a payment of a much greater number of rupees in 1898 than in 1868, no one was hardy enough to suggest an alteration of that arrangement for the benefit of the Government of India. The payment of the pensions of the retired servants of the Government of India resident in England had been undertaken in terms of pounds sterling, and nobody suggested a variation of the arrangement—though it was really more than a hundred years old, having been fixed by Cornwallis in 1793, and very little altered since then to the prejudice of the superior servants of the State—because no one had the audacity to question the sanctity of solemn contracts. In 1895 the Government of India could have easily borrowed almost any sum it wanted at 2½ per cent; and yet it never dreamed of altering the arrangements with the guaranteed Railway companies to whom it was stipulated to guarantee a minimum of 5 or 4 per cent. return on their capital investment. Instances of this kind could be cited from every other department, in which though the existing contracts were found to be undeniably onerous and oppressive, it would have called forth disgust and dismay if the Government had suggested an alteration in their favour. And if existing contracts could not be—should not be—disturbed **in favour** of the Government, it may at least be asked whether there was any justice or equity in disturbing such contracts **against** the Government. (2) The only answer that could be made to such a query with any show of reason, is that such a powerful body as the Government of India must not be judged with the same principles of equity and justice as would be unimpeachable when applied to questions between man and man, between equals. The Government might quite reasonably be asked to grant concessions, even against the contract between it and its servants, if the altered circumstances make the literal enforcement of old rigid contracts unfair to the servants. For Governments, more than individuals must not stick to their stipulated pound of flesh. But in this case the circumstances

* Government allowed the fixed rate of 1/6 for the rupee to such of their servants as had to make remittances to England to the extent of half their salaries and not exceeding £1,000 per annum. This would mean in 1893-94 practically a bonus of 50 % on home remittances since the rupee had fallen to a shilling in that year.

did not demand and would not justify such a concession. For if the European servants of the State in India suffered by a fall in Exchange the Government of India were suffering still more heavily. Their existing resources were proving constantly inadequate to meet their obligations, thanks to the fall in the gold value of the rupee. New taxes had been imposed and old taxes increased to keep up with the growing expenditure. Further burdens could not be met from additional taxation on a community, already admitted as being taxed to their utmost capacity. And it would, therefore, be bad finance and bad equity to the whole community—already overtaxed—to increase taxation for the benefit of a small though powerful section.

(3) Besides while admitting that the fall in the value of the rupee had diminished the gold value of the salaries of the European public servants in India, it must be remembered that the salaries themselves were originally fixed so high that the hardship on the European servants of the State were by no means so high as to justify such a concession. The lowest value of the Rupee was a little over 13d. Taking the original value to be 22d. there was a maximum fall of 40 % in the gold value of the salaries. During the present war prices—generally speaking—have risen by over 100 % which may be taken to be equivalent to a fall in the value of fixed money salaries of over 50 per cent. And yet this has not so far required any special compensation to Government servants above the level of menials, peons and low-paid clerks. Why should, then, a much smaller decline be required to be compensated for specially ? It is the inherent defect of our community, and in fact of the whole social organisation in the world, which makes such fluctuations in the value of money inevitable. But the Government would soon be bankrupt which would consider itself bound to compensate specially its servants every time such fluctuations occur to the disadvantage of the public servants. (4) Perhaps all these arguments against the grant of Exchange Compensation Allowance would have lost their sting if Government had been scrupulously, meticulously fair in awarding this grant. But the grant was made to all the servants of the State whose salaries had suffered by the vagaries of the Exchange—in other words only to the European servants of the State. Now, if it be admitted that the fall in the value of the rupee had caused a rise in the general price level, which it would not be denied was fixed according to gold standard, the Indian public servants had suffered in the same way, and perhaps to the same extent* by the rise of prices in India. To exclude him from the receipt of this compensation allowance could not but make the Indian feel that his country existed for the benefit of the European and not for his. (5) Still another defect in this grant—a defect of detail but of very great importance—was that that the grant was made to all European servants of the State alike, whether they were already in the service or not. It may, perhaps,

* In his recent interesting work on "Modern Currency Reforms" Prof. Kemmerer has shown by appending a table of variations in the index Numbers of gold and silver and the value of the rupee in India as measured by its purchasing power over commodities, that while the extreme variation in the value of gold was 63 points (100 to 163) between 1873, and 1893, that of silver in the same period was 27 and that of the rupee 31 points. "India," he says, "was like a merchant who had agreed to deliver over a long period of years, in return for a lump sum payment, a certain number of yards of cloth of a given kind annually, and who unexpectedly found that the Yard stick was increasing in size three to four per cent. every year."

be specially pleaded on behalf of the old servants that since their entrance into service the conditions had materially altered, and Government might be pleased to consider and compensate them for their new hardships. But the same argument could scarcely be urged on behalf of the new servants—those who had joined when the fall in exchange had become an accomplished fact, and only the extent of the fall was changing from year to year; or worse still, those who were to join after the fall had reached its maximum. It might well be argued that these latter joined with their eyes open to the prevailing state of things. They would of course naturally benefit from any measures Government might adopt to steady the exchange value of the rupee for their own safety. But why should they be given any special compensation when they were perfectly aware of the decline in the value of the unit in which their salaries would be paid? It was the absence of any reasonable answer to this question, along with all the foregoing arguments against this grant, that made the policy so thoroughly objectionable, and that has exposed the Government of India to the legitimate and serious suspicion whether under specious pretexts they are not really indifferent to the interests of the people of India.

This is perhaps too long a digression to be inserted in this place. It was necessary—unavoidable—to show how attempts are made to mitigate the blame for misjudged acts of policy by urging specious arguments about an unfavourable providence. The variations in Exchange would have caused comparatively few and unimportant fluctuations* had the Government of India (1) taken steps to limit, and gradually to diminish, their gold obligations, as they could have done with little difficulty even after the danger had become imminent; (2) not undertaken wars of aggression or conquest, nor added to the military strength, nor constructed defensive but unproductive railways from foreign capital borrowed on usurious terms; and (3) not added unnecessarily, unpardonable burdens under the pretence of Exchange Compensation Allowance which, growing constantly, were a fruitful and permanent cause of variation between estimates and actuals.

As would have appeared from the foregoing discussion, and as would become more increasingly apparent in the subsequent sections, **the true cause of such fluctuations** is to be found in the inexperience if not the incapacity of the officers of the Government of India in charge of the Finance Department. All the most important offices are reserved for—or are usually occupied by Indian civilians—men of liberal training in their youth, whom long service under dry and rigid rules has hardened and made impervious to all new ideas, and incapable alike of seeing or correcting their mistakes. Called upon to discharge duties requiring familiarity with immense and complicated accounts, dealing with questions of far-reaching economic effects, administering a department demanding the fullest

* Cp. Wacha's evidence before the Welby Commission. Especially his reply to Jacob.

exercise of the most consummate statesmanship, they were neither accountants nor economists, nor great statesmen, whatever their merits as administrators may have been.

(2) Another patent factor for variations, usually on the side of excess of expenditure, though occasionally on behalf of economy, lies in the almost absolute power of the Secretary of State and of the India Office to suggest or sanction additional expenditure of almost every kind. We have discussed elsewhere the nature and extent of constitutional checks as regards Indian expenditure in the section dealing with **Financial Organisation.** Here we have only to note that on account of this almost unchecked authority to initiate, control and sanction expenditure, the India office has again and again thrust upon the Government of India additional and unwelcome charges, often with the acquiescence or connivance of the officers in India, but sometimes even against their unanimous opposition. And as these changes are made often at the eleventh hour fluctuations between estimates and actuals are bound to be serious and unavoidable.*

(3) Lastly the present practice of commencing the financial year from April 1st has nothing to recommend it in India except a too, too faithful imitation of the English system. In England the practice has its justification not merely by right of prescription, but also because it is suitable to the commercial customs of the country†. The bulk of the revenues in England consist of tax-revenues,—chiefly direct taxes, which are commonly paid in the first month of the calendar year—that is at the close of the Budget year—when the large Corporations or landlords have realised their profits or rents, and are able to pay the income and property taxes. Similarly the bulk of the payments by the State being made on quarter days, chiefly in the last quarter, the commencement of the financial year on April 1st is quite suitable in England. But in India the most important sources of revenue depend upon the character of the season, and that character cannot be finally settled till about October. It would, therefore, be of great benefit if the financial year is made to commence from October 1st. All the important items of re venue can then be pretty correctly estimated, and so too the expenditure. The column for Revised Estimates may even be altogether dispensed with, since, with a fuller development of the system of Provincial Finance and a better control and audit system, the final accounts in all branches of revenue and expenditure can be concluded by the end of the 1st week of October. The Budget may then be prepared, and introduced about the middle of October, to be finally carried before X'mas. If this reform is carried out, the financial procedure would at once be more simple and accurate. But this or a similar suggestion, though pressed before the Welby Commission, has not yet been accepted by the Government of India.

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* The first Afghan war is a classic example on this point. Within the period here reviewed, the first Budget Speech of Laing and the speeches of Baring contain illustrations in point. See also the first speech of Wilson.

† Upto 1886-87 the Government of India's fiscal year commenced on May 1st and ended on April 30th. It was changed into 1867 to conform to the English practice. There is besides the Fasli year dating from the days of Akabar, and occassionally heard of even now in connection with the land Revenue. Being a lunar year, it is liable to variations which makes it unsuited to be a sound fiscal period.

D. CONFUSION BETWEEN CAPITAL AND ORDINARY EXPENDITURE.

(c) **Another alleged reason** to explain the variations between the estimates and the accounts is **the frequent confusion between capital and other ordinary expenditure.** As a large proprietor or co-sharer in industrial concerns, the Government of India occupies a very prominent place among the progressive and civilized nations of the world. Thanks to these industrial concerns, they have to spend every year enormous sums to meet the ordinary, recurring, operating expenses, as well as to supply periodical renewal, replacement or extension of the existing concerns and new projects. Between these two classes of expenditure there is, indeed, an obvious difference as important in theory, as it is convenient in practice. But in the absence of rigid, well considered rules, it is possible to overstep the vague and somewhat shifting boundary. It happened, for example, during the viceroyalty of Sir John Lawrence, that large sums were decided to be and were actually spent on the construction of the barracks which Sir G. Treveleyan and Massey both considered to be capital transactions, since they were to be met largely from borrowed money. It was apparent, however, that the distinction between capital and ordinary expenditure did not quite correspond to the distinction between works constructed from borrowed funds and those from surplus revenues. And so eventually all these sums were treated as ordinary expenditure, thus profoundly affecting not merely the estimates but also the accounts of those years. Similarly, in later years, famine expenditure, war expenditure and even exchange losses were treated as extraordinary expenditure, which was not in the first instance charged upon the ordinary revenues. The possibility of doubt or discrimination has occasionally led to confusion in the figures. One set of figures for a given year may give **net expenditure** not including the whole of the so-called extraordinary or capital expenditure; while another set might give **total** expenditure including all such items. For one year, again, the figures may have been compiled before the final directions were issued; while another set may give figures for the same year after giving effect to the final orders of competent authorities in doubtful cases. It is enough to mention this to show how differences in the figures of the same year are brought about.

A cognate cause of variation may also be noticed here in passing. The transactions of the Treasuries of the Government of India include a large number of items, on either side of the account, besides the revenues, receipts and disbursements on account of ordinary expenditure. There are first of all the various kinds of debt, receipts and capital disbursements, such as the receipts on account of permanent loans, unfunded borrowings, Savings Bank deposits, or the railway, canal or other Public Work Capital Expenditure, which must all pass through the Government Treasuries, and which cannot but complicate and sometimes confuse accounts. Then there are the various funds deposited with and

administered by the Government, such as the Local Funds, Pensions and other Provident Funds, some Trust Funds etc. Lastly, perhaps, the most important item now is the remittance account, which is no longer limited by the Home Charges, but is assuming more and more the character of Banking and Exchange transactions. Closely connected with this account by a series of laws and orders, is the **Gold Standard Reserve Fund** account and the Paper Currency Reserve Account. The total transactions of the Government of India run into hundreds of millions of pounds owing to these various receipts and disbursements. The magnitude of the transactions would, of course, be no excuse for the errors committed thereunder. But the variety of these transactions, coupled frequently with a want of accurate classification, may explain how variations in the figures for the same year may be brought about.

E. CHANGES IN CURRENCY.

The last explanation of the variation in figures is to be traced to the changes in the currency system. The English administrators of the country naturally desired from the commencement to show the financial position of India in terms of the monetary unit with which they themselves were most familiar. Though all the revenues of the country were collected in rupees, and the bulk of the expenditure also was in rupees, from the earliest times we find it the practice under the Company and afterwards under the Crown to prepare and present the final accounts in terms of pound sterling. Before the decline in the value of silver set in, it was convenient, without being materially dangerous, for the Anglo-Indian financiers to show the accounts in sterling, since the value of the rupee in terms of gold varied very little, the rupee being taken as equivalent to 2/-*. All the revenue figures, and all the expenditure in India, though originally in rupees, were, under this rule, divided by ten and shown in pounds sterling. Any real difference occurred, if at all, under the Home Charges, which were paid in real silver converted into gold, and under the Railway earnings and interest which were agreed by contract to be converted into rupees or pounds at the fixed rate of 22d. for the rupee. The gain or loss on such exchange was collected together into a separate total and debited or credited as a separate item.

This system worked fairly smoothly so long as the value of the rupee remained stable. But from 1873 commenced a serious decline in the gold value of the rupee and the ratio between the rupee and pound sterling was changing from year to year, month to month and even day to day. Except those transactions which could be converted at a fixed rate under a specific contract, all the exchange operations of the Government of India were subject to speculation. The Government of India, however, pursued a policy of helpless drifting. They submitted to the constant changes in the ratio, accepted the loss which went on growing year

* The Sicca rupee was taken to be equivalent to one shilling and the accounts between 1814 and 1843 have been so rendered.

after year, and despatched wild warnings, indignant protests and at length frenzied suggestions to the India Office* We have detailed the history of these suggestions elsewhere. Meanwhile the Government of India did not change their mode of accounts and could not or would not regulate their foreign obligations according to the altered value of the rupee. The accounts of revenue and expenditure were still prepared in pounds sterling, the rupee being taken at its old, unreal traditional value of 2/- the total loss on exchange being mentioned as a special item, and provided for in each successive Budget from 1873 to 1898 by a special estimate which was, indeed, frequently exceeded. The situation thus presented a completely misleading aspect. In 1886 they made the first necessary alteration. The figures of revenue and expenditure were stated in Rx. or tens of rupees and the loss or gain on exchange operations separately shown on each item in a separate column. Lord Cromer had, indeed, essayed as early as 1881 to reconcile the convention with facts by giving the rupee a new value of 20d. But the later change was more important and more effective. It was then proposed to recast the accounts of the previous years according to the new form; and the proposal was carried out for the accounts of 1875 and succeeding years which were then published as an appendix to the Financial statement of 1886-87. It was said before the Welby Commission that the accounts of the previous years also from 1861 onwards had been so recast in what was known as the Green Book. But as already observed the document is not accessible. For the next ten years or so the accounts continued to be kept in this new Unit of Rx. with a separate column to show loss or gain on Exchange on each item at the average rate for the year. Finally in 1899, the value of the rupee was fixed and the accounts from that date onwards were kept in Sterling again, the rupee being converted at the new rate of Rs. 15=£1. Any gain or loss in exchange is now made to fall on a separate fund, called the Gold Standard Reserve; as that fund and the operations connected with it are more technical currency questions, we have discussed them fully in the chapter dealing with the currency organisation. We mention these changes here to show how they could not but cause discrepancies in the estimates and the accounts †

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* See F. S. 1881-82.

† In the Financial Statement of 1905-06 Sir E. N. Baker tried to show by giving figures of actuals and estimates from 1893-4 to date that the variations between the accounts and estimates in the Indian system of Finance averaged 3·35 per cent as regards revenue and 2·77 per cent as regards expenditure. Similar variation in the United Kingdom was 2·54 and 1·77; France 3·17 and 2·18; Spain 4·06 and 3·80; and Italy 3·11 and 2·80. But he added:

"It would not however be understood to contend that the criticisms are wholly without justification. That would be an overstatement of the case. Even when allowance has been made for the disturbing factors alluded to above, the figures in the statement in para 52 show that in the last three years the revenue has exceeded the estimates by more than those causes fairly explain. This feature has probably its origin in the former uncertainties of Sterling Exchange. So long as all growth of revenue and all fruits of retrenchment were liable to be swallowed up by a fall in the exchange it was common prudence to frame the estimates in the most cautious manner and to take no credit for the developments of revenue until they were absolutely assured. When this factor was eliminated the traditions of excessive caution remained, and due allowance was not always made in the estimates for the expansion in the growing heads of revenue."

(Financial Statement para. 55.)

CHAPTER II.

ANALYSIS OF THE PUBLIC EXPENDITURE OF INDIA.

XII.—PRINCIPLE OF CLASSIFICATION OF PUBLIC EXPENDITURE.

The consideration of the individual items of public expenditure would be very much simpler could we but adopt a rational system of division. The financial statements of the Government of India do, indeed, provide us with a clear cut scheme of grouping and discussing the 50 odd items constituting the heads of the public expenditure in India. But the scheme of classification there adopted and standardised is the result rather of historical accident than of any considered, scientific arrangement. For our purposes in this work it has, of course, the merit of practical convenience and traditional regularity, though it could be hardly said that the latter has been maintained all through the period under review. But the absence of any theoretical, scientific affinity between several heads grouped under the general heading exposes the treatment to the great disadvantage of a confusion in the fundamental principles governing such expenditure. A historical study of public finance would be shorn of half its value if it does not bring into relief the first principles of public expenditure and revenues. To give but one llustration the Financial Statements of the Government of India combine under the one group the items noted in the margin. There can be none beyond historical reason for such a grouping Obviously Education, Sanitation, Medical and Ecclesiastical Expenditure is and must be governed by entirely different principles from expenditure on Courts and Jails, Police and General. Administration. So, again, expenditure on Ports and Pilotage, Agriculture and other Scientific Expenditure must be ruled by different maxims than those applying to the ordinary civil departmental salaries and expenses.

SALARIES AND EXPENSES OF CIVIL DEPARTMENTS.

1. General Administration.
2. Law and Justice.
3. Police.
4. Ports and Pilotage.
5. Education.
6. Ecclesiastical.
7. Medical.
8. Sanitation.
9. Political.
10. Agriculture.
11. Scientific and other miscellaneous.

In spite of the admitted convenience of classification sanctified by long custom, it would yet be advisable for a proper understanding of the principles involved to evolve a new classification, more in accordance with the requirements of scientific grouping. The change, however, cannot be, should not be effected on the lines suggested by a new principle of division introduced by the Indian Councils

Act of 1909. That Act permits the newly enlarged council to discuss certain subjects in the Financial Statement during the period that the Budget is before that body, removing at the same time some more important subjects from its cognisance *. The recent report on Constitutional Reforms in India enlarges the scope of the activities of the Legislative Councils. But beyond increasing the number of discussable subjects they go little further in the direction of granting the Power of the Purse which is the guiding principle of such divisions. And the other new principle of division between the Imperial and Provincial Heads of Revenues and Expenditure, which for a long time was such a peculiar feature of the Indian Public Finance, is also unacceptable. In their very nature these are principles of a political complexion or administrative expediency with very little financial or economic value. To adopt them in the discussion of public revenues or expenditure would necessarily deflect our attention from the main point of financial efficiency to the relatively unimportant if not quite irrelevant discussion of political expediency. Besides such distinctions are bound to be transitory. They may be, indeed, they often are, important landmarks in constitutional progress; but they cannot provide the student with a scheme of classification with any pretensions at all to permanence.

Accordingly the classification here adopted is based on the division of the functions of the State as represented by the established Government.

(1) **National Defence against Aggression by Neighbour**:—Though a relic of the barbarous origin of our present civilization it has so far formed a most

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* Table showing the heads of Revenue and Expenditure are open to the Legislative Council of the Government of India to discuss or not under the Act of 1909.

REVENUE.		EXPENDITURE.	
Heads Open.	*Heads not Open.*	*Heads Open.*	*Heads not Open.*
Land Revenue	Stamps	Refunds and Drawbacks	Assignments and Compensation.
Opium	Customs	Land Revenue	Interest on debt.
Salt	Assessed taxes	Opium	Ecclesiastical
Excise	Tribute from Native States	Salt	Political.
Provincial rates	Court fees.	Stamps	Territorial and Political pensions.
Forest	Army	Excise	State Railways. (Interest, annuities etc.)
Registration	Marine	Provincial Rates	Major works.(Interest on debt).
Post Office	Military Works	Customs	Army
Telegraphs	All purely province revenue and revenue accruing from divided heads in provinces possessing Legislative Councils.	Assessed taxes	Marine
Mint		Forest	Military Works.
Jails		Registration	Special defence
Police		Interest on other obligations	Statutory charges.
Education		Post Office	Provincial expenditure and expenditure arising from divided heads in provinces possessing Legislative Councils.
Medical		Telegraphs	
Scientific and other departments.		Mint	
Receipts in aid of superannuation etc.		General Administration	
Stationery and Printing		Courts of Law	
Exchange		Jails	
Miscellaneous		Police	
State Railways		Education	
Subsidised Companies		Medical	
Irrigation: major works;		Scientific and other minor departments.	
Minor works and navigation.		Civil	
Civil works.		Furlough and absence allowance	
		Superannuation charges.	
		Stationery and printing.	
		Exchange Miscellaneous	
		Famine Relief Protective Railways Protective Irrigation Works.	
		Reduction of debt.	
		Subsidised Companies.	
		Miscellaneous Railway expenses.	
		Irrigation major and minor.	
		Civil works Capital expenditure, on State Railways and on Irrigation Works.	

important item of public expenditure in all countries. Its importance arises not so much perhaps from the intrinsic merits or national benefits of such expenditure in every case as from the vast sums spent under this head, constituting a very considerable proportion of the total expenditure. It is one of the dearest hopes of the lovers of peace—of humanity; that the present gigantic world war will end in putting a period to the mad race for armaments by bringing about universal disarmament and a League of Nations. But the prospects of a Warless world are yet remote. Until the dream is realised, we must include under the group of items making up the Expenditure for National Defence :—(a) Expenditure on Military forces, Army, Navy and Air Forces, Military transport, including the pay and equipment of every fighting unit; (b) expenditure for military preparedness, such as forts, frontier or strategic railways, Special Harbour and other Defence Works, Volunteer and Reserve Forces ; (c) expenditure on Military Operations proper such as Frontier Expedition charges, whether for punitive or aggressive reasons or the charges of more important wars *

(II) The Second group of MAINTENANCE OF PEACE AND ORDER :—includes expenditure on Police. Courts of Justice and Jails, (b) General Administration, (c) Collection of Revenue and (d) Political charges† including expense of Legislative Machinery, Foreign representation by Consuls or Ambassadors, or Political Agents as they are called in India, and treaty obligations to other States, (e) Pensions comprising Territorial and Political allowances, Furlough and Absentee charges, superannuation charges or Pensions of the Civil and Military servants and (f) Miscellaneous charges of a like description‡.

(III) The third group of Developmental Expenditure may be subdivided into Expenditure for moral development of the people and Material or Economic Development. Under the former will be comprised Expenditure on Education, including Scientific and Miscellaneous departments, Medical and Sanitation charges and Ecclesiastical; under the latter we include Railways, Irrigation and other Public Work, Agriculture and Famine Relief charges, Ports, Pilotage, Posts and Telegraphs, Mint, and Interest on Public Debt§.

Before concluding these preliminary remarks, we feel it necessary to observe that it would contribute immensely to the proper understanding of Indian Finance if some such classification is adopted in the annual statements. We are aware,

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* The expenditute on Police ought at first sight to be included under the first group as it also represents the theory of Force as the basis of the State. It has nevertheless to be distinguished from military Expenditure as the Police Expenditure is incurred to restrain the elements of disorder within the community, while the military expenditure is incurred to guard against danger from without,

† Expenditure under the head 'Political' was discussed by the Welby Commission under the head of 'Defence' along with the Military Expenditure. We have given reasons elsewhere for not adopting that division.

‡ In the Indian system of accounts the Army Estimates include the charges for Military Pensions whether payable to Indian soldiers or that portion of the British Army serving for a period in India. The last item is actually calculated and paid in a lump sum and to the War office.

§ The item "Interest on Debt" would be difficult to classify. The debt has been incurred as much for Military as for productive purposes. The total interest must accordingly be divided into the two component parts. As that would, however, confuse discussion we have included the whole item under the group of Developmental Expenditure, and we content ourselves by pointing out the anomaly.

indeed, that to upset the present form prescribed by usage and standardised would involve considerable inconvenience; but the inconvenience is not by itself a reason for the rejection of a change which in itself tends to improve. Under the present scheme, one is apt to have a false conception of the functions and duties of the State accepted by the Government of India. The inclusion of Education, Medical and Sanitation charges under the head of Departmental salaries and expenses would induce a radically wrong impression regarding the duty of the State in these respects as understood by the Government of India. It may be, of course, that the Government are not unaware of such a plausible misapprehension; it may be that their policy in these departments is yet by no means so clear and defined as to enable them to commit themselves by a fundamentally different classification suggesting as great a change in the conception of the duties of the State. But even so, at the present time with the birth of New India and the growing consciousness of a new National Unity, it cannot be pressed too much that the standard classification is obsolete, inadequate, inappropriate; and that therefore a more suitable scientific and comprehensive classification should be adopted. The change need not be too sudden. For a time indeed the present classification may be continued, with supplementary tables to show the results according to the new classification; and when the latter is perfectly familiarised it may be introduced bodily.

CHAPTER III.

In accordance with the general plan of this work we shall discuss the total Military Expenditure under the four main heads of :—(a) General principles governing Military Expenditure, (b) the History of Indian Military Expenditure (c) Organisation of the Indian Army etc. and (d) Criticism and suggestions on a review of the policy and organisation of the Military Administration in India.

XIII.—GENERAL PRINCIPLES OF EXPENDITURE ON NATIONAL DEFENCE.

The first thing we notice in connection with the Military Expenditure in India as in the other parts of the civilised world is its constant growth in spite of many and vehement protests against such an income. M. P. Leroy Beaulieu, in his classic treatise on Finance, has shown by comparative statistics the exact extent of this growth in the leading countries in the last century or more. We shall content ourselves by merely referring the reader to him, and proceed to trace the cause of the increase. These, we think, can all be grouped under (a) Political reasons and (b) Reasons of technical efficiency. As regards political reasons it may be noted that in countries like Germany or Italy, if the comparison be extended over a long series of years the increase in Military Expenditure will be found to be due to the alteration of the grouping of the State. In such a comparison the total Military Expenditure of the New State, like the German Empire after 1871, might show a distinct decline as compared to the total outlay of all the previously independent States. The increase caused by the consolidation of the several States into one large empire is only apparent. Again in cases like that of Japan, the increasing military expenditure though, real and substantial, might be traced to a revolution in the organisation of the Army no less than in the Ideal of the State. Memories of a National humiliation, as in the case of France after 1871, tend in the same direction and there is an inevitable reflex action of such a policy on the policy of the neighbours and allies. And the legacy of a disastrous previous war and its subsequent debt, also illustrated by the case of France, contributes even more to the Military Expenditure in the shape of Interest and Pensions charges, not to mention the burden of an Indemnity. Finally, we might mention in the category of purely political causes the case of countries like India, who have to keep up a scale of expenditure not so much in proportion to the needs of their own national defence and integrity, as in accordance with the requirements of Imperial Defence.

This brief analysis of the causes affecting increase in Military Expenditure relates to the past. There are political influences governing the present scale also. Apart from a highly problematic scheme of universal disarmament as the result of this war, the modern civilized States have claimed the necessities of irregular frontier defence as the chief excuse of their Military Expenditure. And where that excuse fails, as in the Case of insular countries like England or Japan, there is alleged the necessity of protecting a world-wide commerce or connecting a scattered Empire. It is true that in such cases Military Expenditure looms largest on the Navy which thus becomes the "Senior Service." With the exception of the American Republic and possibly of the British Colonies, we may then say that the Military Expenditure of the modern States is governed more directly by considerations of frontier defence, Commerce protection and Imperial connections.

Among technical reasons tending to the increase of Military Expenditure we may mention all the changes brought about during the present war in the art and equipment of fighting. The addition of a Fourth Aerial Arm to the three original Arms of Artillery, Cavalry and Infantry is an instance in point. The improvement of the Long Range Guns, the introduction of the Poison Gas and of the Submarine, the necessity of adequate means of defence against these new dangers of the sky and the deep have among them revolutionised warfare since the days of Waterloo, of Sedan, and even of Mukden. These changes being quick and thick the increase in expenditure seems likely, if the old race for armaments continues, to be even more startling than at any time in the past hundred years. And in this estimate we do not include the immense possibilities of a continuous advance in the production of the appliance of war, rendering, as it inevitably does, obsolete and unusable machines and materials which ten short years ago were declared to be the last word in military perfection. A cognate explanation of the same phenomenon is the extreme specialisation of modern means of warfare. In the days of Queen Elizabeth they fought the Great Armada with a very little Royal Navy, but with very considerable Mercantile Marine, which could at a pinch do duty alike as Cargo boats, Transport boats, Hospital boats, Collieries, Cruisers, Men-of-War and hundred other auxiliaries, which nowadays would have to be specially planned and constructed, and which cannot perform any duties save those for which they were designed and commissioned.

The examination of the causes governing the increase in military expenditure would be incomplete without a reference to its incidence. It has been often contended that though absolutely speaking the Military Budget has grown in dimensions in all the leading countries, the increase is not quite out of proportion to the growth of national wealth during the same period. It may perhaps be true with regard to the European and American countries but there is the gravest reason to doubt if the same is the case in India. As this is a point more appropriately discussed in the following pages, we content ourselves by merely drawing attention to it in this connection.

XIV.—ECONOMICS OF MILITARY FINANCE.

After glancing at the causes affecting the scale of Military Expenditure let us now consider its character. Taking it under the two usual heads of expenditure (a) for war preparations and (b) that on actual fighting operations, we shall include under the former all outlay on and for the pay training and equipment of every fighting unit, whether of the Regular Army or of the Reserve. This forms the standing and regularly expanding item in modern Budgets. Its scale is determined by considerations of military efficiency only. An efficient army may prove cheap in spite of the annual cost as it acts as a sort of insurance against war, or shortens its duration when the war has actually broken out. *

Expert military and financial opinion is divided as regards the most economical methods for obtaining the best results from the point of view of military efficiency. Two rival principles have until recently, held the field in this respect. The United Kingdom with her Colonies and the United States were, before this War, the leading exponents of the system of Voluntary Enlistment; while the continental countries were the champions of Conscription. Special advantages were claimed by each side as the particular justification of the system espoused by it. The advocates of Voluntary Enlistment† claimed that (1) a standing Army of professional soldiers, however small, is more efficient by its compactness and specialisation than a whole nation of soldiers, who are each trained for a few years and then sent home to forget the results of their military training, at no time a very agreeable occupation to the majority and particularly distasteful when it is forced. The short annual manœuvres and service in the Reserve are unable to keep such an Army upto that pitch of efficiency characteristic of a professional Army. But the latter, it is urged by the advocates of the rival principle is likely to prove dangerous to the peace of the common wealth if it is too large, and unequal to its task if it is too small. The task of National defence in an hour of danger cannot be satisfactorily performed by mercenaries, even when they are nationals of the country endangered, not so much because of any want of patriotism as the inability of their natural support,—the country at large—to back them up properly. It would be unfair to expect the mass of the male population in such a country,—unaccustomed as they are to acting in concert with large numbers to discipline and hardships,—to handle arms at a moment's notice even if it is only to serve as auxiliaries A professional army, moreover, tends to be recruited from the most undesirable elements of Society The majority of the professional soldiers would be unreliable as they are imperviously insensible to the nobler emotions. But if these arguments of the Conscriptionist are weighty, his opponent can still find an

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Cp, Adams. He thinks increased Military Expenditure increased wars and made them more costly and, therefore, less protracted. In a slightly different from this is also the favourable thesis of the writers of the Norman Angel School. It must be confessed that neither the Russo-Japanese war at the commencement of the century nor the present worldwar lends supprt to this view, viz., that the growing cost of a modern war on a first class scale is in itself a factor to prevent the war.

* This was the view apparently held by the dominant military caste in Europe under the infiuence of the Ex-Kaiser. But Europe was not saved this war though all leading powers had for the past ten years or more been engaged in a mad race of perfecting their fighting machines holding them out as effective insurance against war—the greatest guarantee for the maintenance of the world peace. The protraction of the struggle was it was discovered, impossible to be controlled by the pure factor of military efficiency.

† Adam Smith: Wealth of Nations; Adams: Science of Finance pp. 40, 56, 57, 80; Cliff Lesle Essays 143; Bastable: Public Finance pp. 58, 72.

answer in the (2) relatively greater cost of Conscription to the community. The total expenditure in Germany before the present Revolution was higher than in England, * but the cost of individual soldier was much less in Germany. But these figures are delusive. They do not give any idea of the cost to the individuals taken from their legitimate economic employment, nor to the nation in the shape of loss of working days productively employed. To bring out the total cost of the Army under Conscription, we must add the average wages of the men engaged in productive employment. "The military service postpones to a relatively very late period the productive use of the productive powers of the country....The waste of skilled labour....is enormous....Half the time of the flower of population is thus unproductively spent," says Cliff Leslie, by no means an unsympathetic critic of the compulsory System.† But the advocates of compulsion consider the value of discipline and habits of regular life acquired during three or four years of compulsory military service as more than compensating for all the indirect loss arising from unproductive employment. "The Army Acts as the most finished school of hygiene," says Price Collier in his sympathetic work on Germany. But the Anglo-Saxon Psychology is apt to undervalue these results, considering the habits of discipline and regularity as having been purchased at too great a cost if all individual initiative is to be lost thereby. Jerome K. Jerome's satire about the German love for order and respect for authority depicts faithfully the English idea of the value of discipline. But to an impartial observer the question may nevertheless occur whether in a country which leaves its citizens to shift for themselves,is it always certain that the majority of the citizens will be Napoleons and not Bill Sykes? Besides the argument about the loss of wages may be more definitely answered.‡ Cohn argues that the loss must not be computed at the average rate of wages, since the average wage-rate would have been much lower if the men engaged in military service were competing with the rest for industrial employment, not to mention the equally important fact that most of these men, if not in the army, would probably have found no employment at all. We must, moreover, assuming them all to be productively employed, also allow for waste due to strikes and lock-outs and other disturbances of the modern industrial machine.

Everything considered the compulsory system seems preferable to the voluntary, not only because the unit cost of military defence is much lower than in the latter; but also because under Conscription the nation can always command a

* The following statistics have been compiled from the Statesmans Year Book 1916.
The Military Budget for 1014.

Country	Total Military Establishment.	Total Military Expenditure.	Cost per soldier.
France	£ 846,168	£ 48,146,388	£ 56·9 nearly.
German Empire	806,026	60,429,705	75·0 "
United Kingdom	239,000	28,845,000	120·7 "
United States (1915-16).	106,774	21,438,829	200·75 "

This table shows the cost per army unit much larger in the countries of Voluntary Enlistment than those of Conscription.

† Cliff Leslie:—Essays—143.

‡ See Cohn "Finance" Art. 142, 175, 181, 188.

much larger proportion of well-trained reserves, equal to any emergency of national defence. Under Voluntary Enlistment Reserves are apt to be neglected, ill-trained, ill-equipped, inadequate, undisciplined and unreliable. Apart from the purely military reasons there is a justification for compulsion on an industrial basis. The maintenance of large armies almost inevitably brings in its train the establishment of large industries run most efficiently by the State. It would not do to trust to outside supply for military necessities in times of war. England furnishes a classic example of the danger which may overtake a country, not quite so rich or well-connected as England, if in its moment of supreme need it has to depend for food and fodder, for guns and shells on foreign supply. Works like the Krupps' become a national necessity and afterwards supply an obvious refutation of the common delusion about the incapacity of the State to conduct industrial enterprises. Besides, large masses of men habitually living under strict regulations prescribing their food and clothing, their amusements, occupations and exercise, render it ever so much more easy to organise labour, and through labour the whole world of industry. If then we prefer conscription, it is not because it is symbolical of Militarism, but rather because it is a foretaste of Socialism. *

(B) The other branch of Military Expenditure,—cost of fighting operatio,—is irregular and abnormal. When it occurs it may be met out of current revenues or from borrowed funds. The vast dimensions of modern war expenditure make a strong irresistible argument in favour of borrowing; and the balance of historical tradition inclines the same way. But to burden unborn generations with a considerable load of unproductive debt without any compensating factor is an obvious injustice. Modern economic opinion is, therefore, in favour of meeting as large a share as possible out of the current revenues, which must consequently be raised to the highest bearable pitch before having recourse to loans. The common delusion about wars paying their own cost was a lame justification of militarism which, it is to be hoped, is destroyed for ever. It is not always possible to make the vanquished bear the cost of their victors' triumph as well as their own burden of unsuccessful opposition. Such a victory would have been purchased even when it is an accomplished fact, by years of wasteful preparation for war. To be financially paying, the war must be against an enemy that even in defeat would be rich enough to pay an Indemnity. And, of course, the vanquished under these circumstances would for ever prepare for "Revenge" in spite of a steady impoverishment; and thereby keep up an increasing scale of wasteful expenditure for the victor on pretence of preparation. From the standpoint of humanity,

* . This approval of the Compulsory Military Service has, of course, to be modified by local considerations. England with her scattered possessions might find it difficult to ask her citizen soldiers to serve for two or three years in distant colonies. The existing industrial organisation of countries like England or the United States must also be consulted before such a scheme can be adopted. In India, such a system would in all probability be a failure at least for some time to come, owing to the religious sentiments of a large section of the population. The industrial argument in favour of Conscription adduced above will gain or lose according as the New German Social Democracy succeeds or fails. And the whole argument would be unnecessary if the League of Nations, when established, is able to control the local ambitions of the Constituent States.

We cannot but regard all wars as a collossal waste of human energy, tolerated only during a temporary insanity of the so-called reasonable being. Interested casuits have, indeed, suggested that wars have their advantages, e.g., the better grouping of nations more in accordance with the principle of nationality. Without questioning, for the moment, the need of ethnic unity in political grouping, we may yet ask whether against a solitary Sadowa history would not furnish ten Sedans, Jenas, Austerlitz or Marengos? If nationality be in the interest of humanity its cause may as well be served by less bloody weapons. Every instance of military glory,—and wars are really the result rather of individual infatuation of powerful despots than of truly national considerations in the interests of humanity from Charlemage to William II—means the downfall of a nation,—or, to put it more acceptably,—the Birth of an Empire. It has nothing to do with interests truly of the entire world: it can never be beneficial even to the victor. The loss must be measured not merely in the sums of money actually spent during hostilities, but the incalculable loss of life, the waste of wealth, the growth of animosity, the perpetuation of traditions of Revenge must be considered as well. *

XV. A BRIEF HISTORY OF THE INDIAN MILITARY EXPENDITURE.

The sketch attempted below is purely from a financial standpoint, questions of military organisation and distribution of armament and equipment, though inseparable, will be touched upon only in so far as they are inevitable for a correct understanding of the subject. The general discussion of military policy will be postponed to the last section in this review†.

At the time of the Munity the Company's Army consisted in part of European regiments, but largely of sepoy regiments officered by Europeans. The proportion between the two was:—British 39,500. Indian 311,038. Total 3,50,538. The disproportion between the Indian and the European troops came to be regarded as the efficient cause of the mutiny. Hence in all projects of military reform set on foot after the transfer of the Government to the Crown, the first consideration was to increase the European element. A European soldier was relatively more costly than an Indian, not only because the pay of the former was higher, but also because of the higher pensions, housing, sickness, transport and other charges incidental to a European Army in India. Accepting the principle of a considerable force to be permanently maintained in India, Lord Canning and his friends still contended for a local European Army, which should be at the disposal of the Government of India absolutely, which would not be liable to be removed from India

* The treaty of versailles is a masterpiece of camouflage and a striking instance of the argument adduced in the text. French opinion, if truly represented by journals like "L'action Francaise" seems to have lost its equipoise, and is intent upon demanding and exacting the utmost that can possibly be obtained from Germany without utterly destroying her like Austria. While these proofs were going through the press, the final figure of Reparation payable by Germany is fixed at 11,300 million marks in 42 years exclusive of payments already made. It is extremely doubtful if Germany can pay this amount without being annihilated.

† Imperial Gazetteer, Vol. IV.

for the defence of the Empire at large. It would be more economical and more efficient; economical because to a very large extent the transport and other charges would be saved; and efficient because the experience gained by the officers and men will always be at the disposal of India. Finally, it was more than probable that the officers and men of such a local European force would come to identify themselves more closely with the people and thus promote mutual understanding. Unfortunately for Lord Canning, Imperial considerations prevailed. "The British Army," it was urged, "should be truly imperial and ought not to be divided into two parts serving different masters; that the spirit and traditions of the British Army could be preserved only by the periodical returns of the regiment to England." One would have thought the British Army in India, governed directly under the authority of the British Crown, would in no way be serving two different masters. It possibly may have been the case when India was governed by the East India Company. It was, nevertheless, resolved that the Company's European Army be transferred to the Crown and be amalgamated with the British Imperial Army*. The Royal Commission appointed to consider the question, advised that the European Army in India should consist of 80,000, and that the Native Army should not exceed more than 2 to 1 in Bengal and 3 to 1 in Bombay or Madras. In order further to render concerted action by Indian troops impossible, it was provided that the Native Regiments were to be formed as far as possible of units of different castes. In 1861 the British Army in India was 60,000 strong, but the strength was reduced in latter years. After the amalgamation the British regiments came to India in their regular tour through the Empire, the object being to familiarise the officers and soldiers with the conditions of fighting in every part of the Empire. While in India the troops are supposed to be lent to and paid by the Government of India, the rules of pay, pension, equipment being as nearly as possible co-ordinated†.

At first the payment was made on a capitation rate of £10 per soldier, the term soldier including officers of all ranks, but later on the system was abandoned in favour of actual expenses, which again was superceded by a new capitation rate.‡ All changes in the organisation and equipment of the British Army such as the Short Service System, introduced by Lord Cardwell. in the British Army in 1870 were also given effect to in India independent of any consideration as to whether the change was suitable to Indian conditions. India has also to bear the charge of every increase in the pay &c. of the British troops, which are given effect to in the United Kingdom, apart altogether from her financial ability to

* Lord Canning was a warm supporter of the idea of a local European army in India and he might quite probably have carried the day, but for the "White Mutiny" due to the protests of the European soldiers against being transferred to the service of the Crown, without their wishes in the matter being at all considered. Cp. His life in the rulers of India Series, and also the History of India by Trotter. Vol. II.

† There was a bitter dispute between the Government of India and the War Office in respect of these Home Charges of British troops while serving in India. The official witnesses before the Welby Commission made out a strong case for the Government of India. See particularly the Evidence of Sir Henry Waterfield.

‡ For a brief history of these changes, see foot note below a quotation from the Report (Majority) of the Welby Commission.

bear these charges. The increment of 2d. a day allowance granted to British troops in 1902; an all-round increase of 4d. a day granted to British troops in 1904; and the similar increase granted in 1916-17 may be cited as example. *

The Native Indian Army was reduced, after the Mutiny, from 311,000 to 140,-000 by 1864. But the European officers attached to each native regiment were at the same time increased. These officers were in future to be recruited from a new institution, called the Indian Staff Corps, created in 1861. Promotion in the Staff Corps was to be purely on lines of seniority, 12 years service (afterwards reduced to 11) qualifying for Captaincy, 20 years for Majority, and 26 years for the Lieutenant Colonelship. After 5 years service as Lieutnant-Colonel the brevet rank of Colonel was open to every officer. At the same time that it provided officers for the Native Indian Regiments the Staff Corps was also to provide for posts in the Army Department, as well as for those Civil and Military posts which were open to soldiers †. The great evil of the institution from a financial stand-point (and we may remark in passing that it was by no means free from objection even on the ground of military efficiency) was that it would add enormously to the pensions charge by the automatic, mechanical qualification it required for a certain pension being earned.

As regards the conditions of service in the Army the first decade of the present century was fruitful in liberal improvements. In 1902 the pay of the British troops in India was increased by 2d. a day at the extra cost of £225,000; two years later another increase of from 4d to 7d a day was sanctioned under the name of service pay. The whole of the service pay issued in India was borne by the Indian Exchequer according to the decision of the Arbitrator, the Lord Chief Justice of England. The extra charge was £700,000 a year. In 1909 the pay of all ranks of the Indian Army was increased by Rs. 3 a month to the non-commissioned officers and men of the Silladar Cavalry, and Rs. 2 to other troops, with a free fuel allowance, all costing £427,000. At the same time the pay of the junior officers was raised, a Kit-and-boot-Allowance was added, Pensions rules were revised, and free passage by rail was granted. The accommodation for the Indian troops was improved in 1910, forty years after the barracks for the European soldiers were improved. The payment to the War Office was increased in 1909, by £300,000, owing to the increase in the Capitation rate from £7-10 to £11-8-0‡.

* The Short Service System was much criticised, and strongly objected to by the Government of India. Cp. The evidence before the Welby Commission of Sir Henry Waterfield. Apropos it may be noted that non-official witnesses like the late Mr. G. K. Gokhale, took the same view. Mr. Gokhale remarked in his evidence, "we pay for Short Service but the advantage of the system goes to England. The peculiar merit of the system is that it gives a large Reserve. Our English Reserve is in England, and is not available to us." The system was not applied to Indian troops in India, who therefore had to be maintained on a War-footing.

† Criticising the institution of the Staff Corps, Mr. Gokhale in his evidence before the Welby Commission remarked that "Every Officer in future could rely on getting Colonel's allowance if he lived and clung to the service till he had served 38 years." In 1895 he calculated that in a total number of officers 2,826 there were 501 in receipt of Colonel's allowance.

‡ "From 1824 to 1860 the actual expenditure incurred at Home in defraying the effective charges of the Royal troops serving in India was ascertained and recovered from India. Inconvenience and delay attended this method of adjustment, and when the permanent British force in India was greatly increased after the Mutiny, it became necessary to reconsider the subject. A Committee was appointed for the purpose

(continued to next page.)

The subjoined table shows the composition, strength and distribution of the Indian Army as sanctioned by law in 1915-1916.

BRITISH ARMY IN INDIA.

Northern Army.	Officers.	Men.	Total	Southern Army Officers.	Men.	Total.	Officers.	Men
Royal Artillery	292	7,681	7,973	287	7,509	7,796	579	15,190
Cavalry	162	3,594	3,756	81	1,797	1,878	243	5,391
Royal Engineers	204	9	213	105	6	111	309	15
Infantry	784	28,164	28,948	672	24,126	24,798	1,456	52,290
Invalid and Veteran	..	..	..	..	..	..	..	..
Indian Army	71	..	71	30	..	..	101	..
General List	..	..	..	..	..	..	..	..
General Officers	1	..	1	..	..	..	1	..
Total	1,514	39,448	40,962	1,175	33,438	34,613	2,689	72,886

Grand Total of Officers and Men 75,575.

INDIAN ARMY.

Northern Army.				Southern Army.			Total.	
Artillery	57	6,440	6·497	11	3,603	3,614	68	10,043
Body-Guard	4	280	·284	·4	142	146	8	·422
Cavalry	372	15,440	15,812	211	18,810	9,021	583	24,250
Infantry	1,095	65,688	66,783	930	54,304	55,234	2,025	119,992
Sappers and Miners	34	2,100	2,134	·53	·33,395	3,448	87	·5,495
Total	1,562	89,948	91,510	1,209	70,254	71,463	2,771	160,202

Grand Total of Officers and Men	162,973
In addition there were British Army	75,575
Imperial Service troops amounting to	21,069
Reserve " "	35,124
Volunteers " "	42,655
Total Army ..	338,406

After the wholesale reorganisation, the Army in India enjoyed nearly 20 years of quiet, enlivened occasionally by frontier wars in Bhutan or China, and in 1867-68 as far afield as Abyssinia. But it was on the whole an era of peaceful development. In spite of the rigid and drastic economies determined upon after the Mutiny, and carried out by Lord Lawrence, the military expenditure did not show any diminution. In fact a marked increase occurred during 1868-69 to 1870-71 owing to the large expenditure undertaken for military barracks and paid out chiefly from the ordinary revenues. Sir John Lawrence was the most powerful exponent of the policy of "Masterly Inactivity" on the frontier, which saved India from a disastrous Afghan War during his administration and that of his two immediate successors*. The policy of armed vigilance on the frontier keeping Jingoism in chains, and resolutely refusing intervention in affairs which concerned us not, was reversed by the fatal blunder of Lord Lytton, who was encouraged and supported by the "Forward" School in England. Without going into the rights

(contd.)
in 1861. It recommended after much consideration that payment should be made for Home charges in the form of a Capitation Rate of £ 10 on every soldier on the British establishment in India, the term soldier including officers ot all alike." (para 258 Welby Commission Report).

"The greater part of the claim refers to services the cost of which is covered by the 'Capitation Rate.' These services are:—(1) Enlistment and training of the recruit..............(2) the pay of young officers appointed to vacancies in the force and awaiting orders to sail...............(3) training of veterinary surgeons in India; (4) the examination of the candidates for the I. M. S. (5) Educational establishments...... (6) advances of 25 days' pay to drafts sailing for India, (7) expenses of men sent home from India either as invalids or time-expired men...........(8) Expenses of Indian invalids at Nentley and Woolwich Hospitals. (para 254 Welby Commission Report).

"The Government of India paid actual charges upto 1860; payments on account were made between 1861 and 1869. The Tulloch Committee recommended a £10 Capitation Rate which the Government of India disputed and so they made payments of sums which were accepted by an act of Parliament in full discharge upto 1878. Again a Committee was appointed to determine the payments for the future, which finally fixed £7-10 in 1889-90."

* On the question of Frontier policy Sir J. Lawrence and Sir Bartle Frere represented each the two opposite schools, cp. "Making of a Frontier Durand."

or wrongs of the Second Afghan War, we may at least remark that financially it was no less a disaster than militarily it was a catastrophe. The story of the full havoc of the Afghan War on Indian Finance is told elsewhere. We need, here, only acknowledge the solitary instance of bare justice that England has rendered to India in all their connection of more than a century. The War was fought for English interests and at the instance of English Statesmen. England under Gladstone's regime agreed to contribute £ 5,000,000 to the costs of this war (over £23,-000,000). This was hailed as a manifestation of the English Sense of Justice by a people accustomed to the imperialistic indifference of the first Afghan crime and the mutiny panic.

The experience of the Afghan War led to the appointment of the Simla army Commission of 1879 under the Presidency of Sir Ashley Eden. That commission was divided as regards the policy to be pursued on the frontier, and unanimous on military reform proposals. They suggested (1) a reduction in the number of cavalry and infantry regiments so that the total strength of the Army (65,000 British and 1,35,000 Indian) remained undisturbed; (2) the amalgamation of the three Presidency Armies which was prepared for by the consolidation of the Military Accounts department under one Accountant General in 1864 and of the Remount Departments, and was finally accomplished in 1893.

Between 1880 when Afghan territory was evacuated, and 1885 when Penjdeh was occupied, the only military incidents of note were the Egypt campaign of 1882 and Suakim Expedition of 1885*. In the latter year, under the 'Diplomatic' Viceroy Lord Dufferin, Russophobia became extremely acute. A large army was mobilised but peace was preserved. It was fancied, however, that danger had not finally disappeared; and, therefore, a costly scheme of Special Defence Works on the frontier and in the various ports of British India was sanctioned†, and 10,600 men were added to the Army, the British element being increased beyond the suggestions of the Simla Army Commission. The increase was calculated to cost two million sterling, and showed a strength, when completed, of 73,602 British officers and men and 1,53,092 Indians‡. The Imperial service troops also came into existence about the same time but the whole cost of this body was borne by the chiefs who raised them, with the exception of the charges of Inspection, which fell on the Government of India. The Army Reserve, now numbering 50,000, and the Burma Military Police also date from the period. The Army thus increased was frequently lent to the British Government when not engaged in conquests for the Government of India§.

* For a list of Indian Military Expeditions from 1859 to 1895 see Evidence Vol. II, pp. 350 and 364 of the Welby Commission.

† For expenditure on Special Defence Works cp. Table of Military expenditure below.

‡ Lord Dufferin formulated in 1885 and Lord Randolph Churchill accepted the Policy of Buffer States for the Defence of Frontier and regulation of the Indian Military Expenditure. But it was broken the very next year in connection with Burma, Which was too pulpy to serve as a good buffer. See Lyall's Life of the Marquis of Dufferin and Ava.

§ Between 1895 and 1920 there were the Saukim Expedition of 1896 India paying all the ordinary charges. Mombassa Expedition of the same year of which of the British Government bore all the costs; The Transvaal and Boer War loan of troops for which India bore the whole cost and the present War, in which India bore all the ordinary charges, besides making a gift of £100 million and adding to the total normal military Budget.

XVI. INDIAN EXPENDITURE FOR NATIONAL DEFENCE.

THE FOLLOWING TABLE SHOWS THE GROWTH OF MILITARY EXPENDITURE IN INDIA.

Year.	Total Army £	Mil. Opertns.	Marine.	Mil. Wks. Sp. Def. &c.	Army Income	Total Ch.
1859-60 ..	18,460,240	....	920,305	....	....	19,380,545
1860-61 ..	15,838,981	....	1,048,724	....	£ 410,457	16,476,741
1861-62 ..	13,681,900	....	686,193	....	1,111,942	13,256,151
1862-63 ..	12,764,325	....	744,590	....	991,345	12,517,570
1863-64 ..	12,697,069	....	567,555	....	1,055,146	12,209,478
1864-65 ..	13,181,957	....	571,627	....	1,043,662	12,709,922
1865-66 ..	13,909,412	....	577,397	....	927,230	13,539,579
1866-67 ..	12,440,383	....	585,945	....	942,032	12,084,296
1867-68 ..	12,603,467	....	926,539	....	1,197,802	12,332,204
1868-69 ..	16,269,581	....	1,140,630	....	1,822,108	15,588,103
1869-70 ..	16,329,739	....	1,291,571	....	1,412,558	16,208,762
1870-71 ..	16,074,799	....	759,770	....	1,295,293	15,539,276
1871-72 ..	15,678,112	....	574,100	....	1,141,316	15,110,896
1872-73 ..	15,503,612	....	556,239	....	1,413,667	14,646,181
1873-74 ..	15,228,274	....	474,756	....	1,245,447	14,456,583
1874-75 ..	15,375,193	....	590,046	....	1,287,370	13,697,869
1875-76 ..	15,308,459*(1)	....	629,867	....	1,276,044	14,662,272*
1876-77 ..	15,792,112	....	694,584	....	1,168,652	15,323,044
1877-78 ..	17,300,484	....	....	1,204,829	879,538	17,725,775
1878-79 ..	17,246,232	692,552	....	1,362,375	984,942	18,316,217
1879-80 ..	17,728,787	4,851,928	....	2,809,040	1,098,095	22,291,660
1880-81 ..	17,549,710	11,382,787	....	3,442,822	4,785,462	27,589,857
1881-82 ..	18,040,900	1,647,610	....	1,583,201	4,311,082	16,960,629
1882-83 ..	17,032,880	1,326,553	....	1,445,647	1,724,110	18,080,956
1883-84 ..	18,068,248	55,444	....	843,164	968,219	17,998,637

1884-85 ..	16,963,803	....	....	1,213,148	815,170	17,361,781
1885-86 ..	....	....	....	....	....	....
1886-87 ..	Rs. 19,52,50,420	....	....	Rs. 1,67,03,410	Rs. 98,50,030	Rs. 20,21,03,800
1887-88 ..	20,41,79,340	....	....	1,76,90,220	1,06,23,630	21,12,62,310
1888-89 ..	20,30,18,410	....	....	2,14,02,020	1,06,23,630	21,12,62,310
1889-90 ..	20,67,78,140	....	....	1,83,29,180	94,47,070	21,56,60,250
1890-91 ..	20,69,00,680	....	....	1,70,76,970	78,56,350	21,61,21,300
1891-92 ..	22,28,06,010	....	....	1,98,45,990	78,04,040	24,54,91,370
1892-93 ..	23,41,91,110	....	....	1,99,43,460	85.02,260	23,98,28,560
1893-94 ..	23,25,35,970	....	....	1,54,94,850	1,01,01,970	21,32,13,910
1894-95 ..	24,09,60,910	....	....	1,31,49,480	97,80,110	25,73,50,940
1895-96 ..	25,39,81,570	....	....	....	....	....
1896-97 ..	24,25,53,380	....	....	1,26,03,660	95,33,300	24,56,26,740
1897-98 ..	26,99,67,740	....	....	91,96,190	88,18,640	27,03,55,290
1898-99 ..	24,01,07,700	....	....	1,21,44,950	92,45,420	24,31,07,230
1899-1900 ..	£ 14,885,226	....	£ 446,110	£ 837,436	£ 792,290	£ 15,376,473
1900-01 ..	15,082,799	....	493,281	789,746	891,495	15,474,391
1901-02 ..	15,763,931	....	493,281	964,783	1,058,203	16,164,292
1902-03 ..	17,346,392	....	409,222	1,096,669	1,217,670	17,634,613
1903-04 ..	17,865,208	....	613,751	1,061,708	1,399,844	18,140,823
1904-05 ..	20,175,694	....	620,789	1,119,894	1,210,184	20,696,193
1905-06 ..	19,267,130	....	551,070	1,241,211	1,382,772	19,676,639
1906-07 ..	16,657,845	....	663,385	1,265,873	1,416,743	20,170,360
1907-08 ..	18,647,533	....	485,024	1,283,230	1,167,433	19,248,354
1908-09 ..	19,177,266	....	476,957	996,406	1,047,601	19,604,988
1909-10 ..	18,901,181	....	461,157	888,946	1,136,961	19,112,323
1910-11 ..	19,131,780	....	445,867	908,424	1,221,029	21,265,042
1911-12 ..	19,536,546	....	450,728	914,363	1,343,057	19,558,580
1912-13 ..	19,576,526	....	479,928	896,646	1,387,634	19,565,466
1913-14 ..	19,789,239	....	512,845	963,681	1,369,652	19,896,113
1914-15 ..	20,336,559	....	463,370	1,003,674	1,374,688	20,536,915
1915-16 ..	21,893,200	....	745,513	864,370	1,241,740	22,261,353

(contd., to next page)

* In considering this table, the following reservations must be remembered :—

THE DETAILS OF THE INDIAN MILITARY EXPENDITURE.

The Table noted in the margin shows the details of the Indian Military Expenditure

INDIA.	Rs.
EFFECTIVE	
Administration	57,48,817
Mil. Accts. Regimental Pay &c.	7,72,27,057
Supply and Transport	2,07,17,776
Veterinary	1,72,784
Clothing	42,37,239
Remounts	44,62,466
Medical Stores	30,12,527
Medical Stores	6,10,833
Ordnance	1,18,71,030
Ecclesiastical	3,96,759
Education	5,65,931
Food Compensation	34,00,920
Miscellaneous	11,31,78,446
Indian Munitions	55,019
Hutting	2,56,912
Conveyance (Road and Sea)	9,56,231
„ Rail	1,09,80,704
Cantonments	17,37,917
Unadjusted Expenses	1,75,481
Total Rs.	27,04,52,729
Non-effective	1,28,45,207
Total £	28,32,97,936
Sterling equivalent £	18,886,529

ENGLAND.	£
Effective War Office dues	930,700
Furlough Allowance	14,041
„ Indian Service	187,000
Consolidated clothing	1
Indian Troops Service	282,300
Other Heads	31,677
Clothing Stores	108,039
Ordnance Stores	1,152,872
Medical Stores	182,705
Remount Stores	....
Supply Transport	83,000
Med. Transport	165,439
Mil. Farms	25,428
Aviation Stores	....
N. W. Frontier	29,638
Total £	3,191,512
NON-EFFECTIVE	
War office dues for British forces	676,073
Ind. Service Pensions	1,236,154
Other Heads	....
Total England	5,373,474

In this table showing the details of the Indian Military Expenditure a few points need more than a passing reference. There is a marked difference in two important items; Regimental pay etc. and miscellaneous services. The former in 1911-12 amounted to Rs. 12,-35,65,223 and the latter to Rs. 89,22,432. In the accounts of 1916-17 as shown in the margin the former amounted to Rs. 7,72,27,057, while the latter accounted for the very small sum of Rs. 11,31,78,446. This large increase is due to the war and consists of unclassified or extraordinary items. It is a war charge which, it is to be hoped, will disappear now that the war is over.

The pay of the officers in the Indian Army consists of allowance of rank, and, in addition, allowance of each appointment. A Lieutenant gets Rs. 25 plus 350 which will rise to the maximum of 827 plus 700 in the cavalry, and Rs. 325 to 1,427 in the Infantry. The staff pay in the non-regimental Appointments rises to Rs. 1,000 monthly but the

(contd. from previous page.)

From 1859-60 to 1877-78 the figures are doubtful owing to the vagueness about the (a) Military figures under the Home charges which may or may not have been included in the total given above; (probably they are); (b) The item Stores is not distinguished between civil and military stores. (c) No separate figures are obtainable for this period as regards Military works and it is not clear if the item described in the statements of those years as Extraordinary public works include military works or not. If it is inclusive then the total figures will also be inclusive. It would seem from the separate statement of that item in the total expenditure that the Army figures do not include this expenditure on Extraordinary Public Works.

2. From 1877-78 to 1884-85 and from 1891-92 to 1914-15 the figures have been compiled from the volumes of the Financial Statements published every year. In the total we have not included the items of Marine charges (which is a mixed item) and of stores. We have tried to include the expenditure on Military or Frontier Railways, taking for that item the charges not mentioned under the Railways Account proper (State or Guaranteed) or the Railways constructed from the Famine Relief Grant. The charges of special Defence Works have been included.

3. In these Figures the loss under the item Exchange during the period that that item was important has been excluded. It adds considerably to the total of the Army Expenditure.

4. The figures for interest on loans raised for purely military purposes such as the Second Afghan War or the last Burmese War ought to have been included. But we cannot easily distinguish between the debt raised in the same years in which the wars were raged from the debt incurred in the same years for productive purposes. Elsewhere in the chapter dealing with the Public debt of India some calculation is made in this account and an attempt is made to show the figures as nearly as possible.

5. The figures for the year 1875-76 have for the first time been stated in Rupees. In the next few years they are again given in £ the conversion being at the old inaccurate though customary rate of Rs. 10-1£. From 1885-96 the figures are given in tens of rupees or RX which we have converted into Rupees and given fully. Between 1873 and 1885 the figures stated in sterling are misleading as they do not represent so many pounds but only rupees multiplied by ten. From 1899-1900 the figures have once more been stated in sterling this time the conversion being made at the new fixed official rate of Rs. 15=£ 1.

6. From 1899-1900 the Military Marine charges have been included under the first column.

7. The Receipts of the Military Department are deducted from the total.

ENGLAND AND INDIA	
TOTAL EXP.	24,260,003
Army Receipts	1,115,518
TOTAL NET MIL. EXP. ..	£ 23,144,485

higher staff appointments carry consolidated salaries. Promotion is by time—9 years as Lieutenant, 9 years as Captain, 8 years as Major and thereafter Lieutenant-Colonel, subject in all cases to the successful passing of the required professional examinations.

The pay of soldiers in the Indian Army is very meagre. From seven rupees at the time of the Mutiny it was raised in 1895 to Rs. 9 per month. An Indian gunner now gets Rs. 10 per month and a trooper of the non-silladar cavalry Rs. 11. From the 31 Rupees allowed to Silladar trooper he must find maintenance for his horse, his transport and his equipment. The pay is supplemented by compensation for dearness of provisions, granted when the principal articles of provisions are calculated to cost more than Rs. 3-8-0 to a combatant and Rs. 2-8-0 to a non-combatant, the Government paying the excess. Extra pay is given to non-commissioned officers and men in recognition of their zeal, efficiency and good conduct. When marching or on field service Batta is allowed, and pensions of Rs. 4 a month can be earned after 21 years of service, the rate being increased if the service is of 32 years and meritorious.

AUXILIARY FORCES.

Besides the regular Army, there is a considerable force of Auxiliaries. The present volunteers, organised during the Mutiny, number 42,000 officers and men, and include foot and mounted Rifle Regiments, light horse and garrison artillery. They are generally entrusted with the defence of ports, railways, cantonments and civil stations. A proposal to form a volunteer Reserve Force, made as early as 1889, has not yet developed much. All volunteers are under the general officers in the districts in which they are located.

The Imperial Service Troops originated in the period following the Russian scare of 1885. They are troops offered for Imperial service by the various Native Princes of India, and are recruited, armed, equipped and maintained by the respective States, under the general Supervision of the Government of India. They now exceed 22,000 in number and did conspicuous service during the Great War. An analogous body, more of ceremonial than of service utility, was created under the impulse of Lord Curzon and styled **The Imperial Cadet Corps.**

THE ROYAL INDIAN MARINE.

This is the only representative of a naval force at the disposal of the Govern ment of India. The East India Company maintained a navy from their earliest period and specifically christened the force the Indian Navy in 1830. Abolished for reasons of economy and efficiency in 1861, it was resuscitated under the present title in 1892. Its duties comprise the transport of troops and stores, the guarding of convict settlements, the suppression of piracy, marine surveys and protection

of the Indian ports. It would be a misnomer to consider it in any sense a Naval Force. The Government of India have been paying since 1869 a contribution to the Imperial British Navy in consideration of the benefit of that body received by India. Since 1896-97 the contribution has amounted to £100,000 in return for which certain ships were placed under the orders of, or at least at the disposal of, the Government of India.

XVII.—CRITICISM, PROSPECTS AND SUGGESTIONS.

In offering criticism on the Indian Military Expenditure we must necessarily confine ourselves to political and financial principles. Such a course is likely to render much of our criticism nugatory to those who urge the plea of efficiency; for we are unqualified to judge of technical questions of military organisation and efficiency. Our only defence against what might be alleged to be one-sided criticism is: Military efficiency is a **relative** term which must be determined in the case of each country by a combined consideration of its needs of defence and the resources that it can fairly devote for the purpose. This has been admitted by the Anglo-Indians statesmen of the highest standing*. There is always a point beyond which considerations of mere military defence pass out of the state which has always been tacitly reserved for the professional soldier and his governing idea of fighting efficiency. The larger problems involving expenditure of large sums of money and the disposition of troops in relation to possible enemies must certainly not be decided on the fiat of military experts. For these matters affect the State as a whole, and, as such, must be looked at from the civil or financial as well as military or efficiency standpoint. Again military efficiency—as all such ideas—is a frequently changing quantity of which we in India have had painful experience. What one commission of military experts lays down as the ideal to be striven for may be knocked on the head by another equally "competent" body of "experts" making an outside observer painfully aware of the popular story about liars, damned liars and experts. Finally, even if we consider the military history of India during the last two generations from the narrowest conception of efficiency, we can scarcely say that even from that stand-point the vast sums annually spent on the army have been justified. After the Mutiny, there remained no first class rival army in India to challenge the military supremacy of the Indian Army. But in the one great war of the last 60 years—the Afghan War of 1878-80—the result were far from establishing the unchallenged and unchallengable supremacy of the Indian Army. The whole story of the frontier warfare shows the same net result. The experience of and encomiums on the Indian troops in the Chinese, Egyptian and South African campaigns must not be taken at

* Lord Mayo wrote:—"Though the financial necessities of the hour have brought more prominently to your view the enormous cost of our army (16.3 crores), as compared with the available resources of the Country I cannot describe fiscal difficulties as the main reason for the course we have taken. **I consider that if our condition in this respect was most prosperous, we should still not be Justified in spending one shilling more on our army than can be shown to be absolutely and imperatively necessary.** There are considerations of a far higher nature involved in this matter than the annual exigencies of finance or the interests of those who are employed in the Military service of the Crown. Every shilling that is taken for unnecessary military expenditure is so much withdrawn from those vast sums which it is our duty to spend for the moral and meterial improvement of the people." Minute of 3rd October 1870.

more than their face value, since in all these campaigns—as in the great World War of 1914-18—the Indian troops formed one small contingent of the total army engaged.

Excluding, therefore, considerations of military efficiency, our criticism will be centred on political and financial grounds. To facilitate clearness, we shall divide our criticisms into two main aspects, the one comprising general principles of Military policy, the other including details of Military organisation.

As regards the general principles governing Military policy of the pre-Mutiny era the maintenance of a strong army was necessary for accomplishing the conquest and consolidation of the Indian Empire. After the Mutiny—all the internal enemies or possible rivals having been overcome, the task of the army was to defend the Empire against aggression from outside, and the maintenance of order within the Empire should it ever be disturbed by the ambition of a Native Power, or endangered by the disaffection of any section of the army itself or the people. This last, however, became of increasing insignificance as the sympathies of the educated and propertied elements in the country became more and more centred on the maintenance of the British rule * and the single units of the army have begun to realise the futility of insurrection in face of the all absorbing importance of the most upto-date equipment for a successful rebellion. As regards the former point, for 20 years after the Mutiny the Government of India managed to preserve perfect neutrality in spite of the temptation to meddle in the Afghan affairs, in spite of the tirades of such leaders of the Forward school as Rawlinson and Frere, thanks chiefly to the experience and fore-sight of men like Sir John Lawrence, Lord Mayo and Lord Northbrook. Even after that policy had been temporarily broken, by the unfortunate blunder of the second Afghan war, the Simla Army Commission of 1879—presided over by Sir A. Eden and assisted by the late Lord Roberts—laid down the principles governing the military strength of India substantially on the same lines as those given above. †

These objects were legitimate, though some of them were almost insignificant, and they were strictly adhered to during the Viceroyalty of Lord Ripon. In 1885, when Russia had occupied Penjdeh in the No-man's land between the Afghan, and Russian Frontiers in Central Asia, this policy of wise preparedness coupled with neutrality was abandoned in the heat of the War-fever. The additions to the strength of the Army, the prosecution of unproductive frontier railways, the construction of special defence works—all ordered during the jingo-fever—were all continued even after the threatened war had been averted. The project for the conquest and annexation of Burma, which was next undertaken to provide occupation of the increased army, justified with painful promptitude the prophesy,

* It is a bitter irony of fate that it should have been reserved for an Indian member of the Esher Committee to write a special minute breathing a note of distrust in every line as far as the Indian people are concerned. We have *not* paid much attention to the recommendations of the Army in India Committee, though they were published which these pages were going through the Press as there is every reason to hope that they will not be suffered to materialise in all their brazen effrontery. If they do the cost of the army will be 60 crores, the cost in 1920-21 being estimated at 57 crores for a peace Army.

† The purposes for which the Army of India must be maintained may be stated to be (a) preventing of repelling attacks or threatened aggression from foreign enemies beyond our border; (b) making successful armed disturbance or rebellion, whether in British India or Feudatory States impossible. Simla Army Commission.

of the two members of the Viceregal Council—Sir Auckland Colvin and Sir Courtenay Ilbert—who had energetically protested against such an increase.* – Though the Simla Army Commission had taken into consideration the possibility of a war with Russia allied with Afghanistan—and not, as was the case in 1885, Afghanistan allied with India against Russia—in prescribing the strength of the Indian Army, the increase was made by the Viceroy who for the first time enunciated the policy of the Buffer State. The Burma campaign was only the forerunner of the Kashmere imbroglio under Lord Landsdowne leading to the unprofitable occupation of Gilgit, Hunza and Nahyar. The Chitral expedition and the inglorious campaign of Tirah followed inevitably. And when Lord Curzon had apparently set at rest the perrennial frontier troubles by the annexation of the frontier territory, and the formation of the North-West Frontier Provinces in 1901, the rampant Imperialism of the brilliant, hard-working but unsympathetic Viceroy found expression in the so-called "peaceful" mission to Tibet with ulterior designs on Yunan and a Cesarian promenade in the Persian Gulf. Of the recent expedition to Mesopotamia it is perhaps too early to say anything, though, if we are to judge from the past records, the annexation of Mesopotamia and the littoral of the Persian Gulf seems not inconceivable, the cost being charged, as usual, to India unless the new Indian Councils wake up in time to prevent it.

The radical change in policy was at first cloaked under the pretence of Military defensive preparations. It was not, however, till nearly 20 years after the policy of Spread—Eaglism was put into execution, that the responsible officers of the Government of India first openly admitted a change of the angle of vision.† In the financial discussion of the Budget of 1904-05 Sir E. Elles first admitted this fundamental change of policy in answer to the repeated and trenchant attacks of the late Mr. Gokhale on military finance. Lord Curzon defined his own attitude and that of his Government, on very nearly the same line, though of course, with greater wealth of words and brilliance of expression. ‡

The last instance of the employment of Indian troops outside the Frontiers of India can scarcely be regarded as an example of Indian Chauvinism; for the present war must be admitted to have broken out owing to influences entirely beyond the manipulations of Simla or Charles Street. The help India has rendered

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* "There seems every reason to apprehend that the increase of our forces beyond the needs enumerated by the Army Commission may prove a weapon less of defence than of aggression. We are of opinion that no circumstances have arisen which from a military point of view have not already been foreseen and guarded against; the proposal to increase the strength of the army by 27,000 men should be negatived. We are further of opinion that it may lead to the advocacy and possibly to the adoption of projects for the extension of our present frontier......It has already been pointed out that the existence of such a force should be no mean agent in bringing about the very risk which it is meant to obviate. A standing army which is larger than is necessary for Home requirements will be a temptation, an almost irresistible weapon of offence beyond the border." Minute of dissent 14th August 1885."

† "Are we to be content to hide ourselves beyond our mountain barriers under the foolish impression that we should be safe, whilst the absorption of Asiatic Kingdoms is steadily in progress......It is I think undoubted that the Indian Army in the future must be a main factor in the maintenance of the balance of power in Asia; it is impossible to regard it any longer as a local militia for purely local defence and maintenance of order") (Budget Discussion 1904-05.)

‡ "India", said his Lordship, "is like a fortress with the vast moat of the sea on two of her faces and with mountains for her walls on the remainder. But beyond these walls, which are some times of by no means insuperable height and admit of being easily penetrated, extends a glacis of varying breadth and dimension. We do not want to occupy it, but we also cannot afford to see it occupied by our foes. We are quite content to let it remain in the hands of our allies and friends, but if rival and unfriendly influences creep up to it and lodge themselves right under our walls, we are compelled to intervene because a danger would thereby grow up that might one day menace our security. This is the secret of the whole position in Arabia, Persia, Afghanistan Tibet and as far eastwards as Siam." (Budget discussion 1904-05).

to England in this war must be a convincing, though costly, proof of India's loyalty to the Empire. It would have been all the more graceful of the representatives of the Indian people had in reality been free to vote such a handsome contribution of their own accord. *

This brief historical review of the evolution of the Indian Military policy suggests obvious points of unanswerable, unfavourable criticism. It has in the first place been a most costly policy, beyond the ability of the Indian people to bear.† It has absorbed a growing proportion of the Indian revenues, and excluded from the sympathetic consideration of the Government all projects of internal improvement costing money. Finally, it has led India into expensive, unnecessary, unproductive annexations of territory justly exposing the Indian Government to the suspicions of our neighbours. Like Burma, the administrative requirements of these provinces have more than absorbed all their revenues. ‡

The policy has, besides, become entirely unjustifiable on the very grounds on which in the past expenditure has been increased. Amongst the causes most frequently urged for increased expenditure were those noted in the margin to which we may add,—though this last is nowhere officially accepted in so many words—the requirements of the maintenance of balance of power and the preservation of internal peace. If we keep to our legitimate, or even the enlarged frontier of 1901, and do not lose ourselves in the vain search after a "scientific frontier," it may well be said that all the necessary roads and railways on the Frontier have been completed; that no greater frontier expeditions beyond punitive measures are or will be necessary; that the programme of Special Defence Works has been exhausted; that the conditions of pay etc. are as liberal as can be desired. And as regards the maintenance of the Balance of Power in Asia the conclusion of Anglo-Russian agreement in 1908 in spite of Afghanistan, and of

1. Frontier expeditions
2 Increase of pay &c.
3 Increase of Home Military charges.
4. Special Defence Works.
5. Reorganisation &c.
6. Military Roads, buildings &c.
7. Mobilisation.
8. Exchange while it lasted.

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* £100 million were given as India's War contribution on the motion of the Finance Minister in 1917. The non-official members of the Viceregal Legislative Council had no answer to the logic of this "fait accompli" This was in March 1917; in September 1918 another contribution of £45 million was similarly voted, but this time it was by a resolution in the Imperial Legislative Council which, in the then state of the allies, the non-official members dared not oppose. The war has increased India's permanent military charges by about 50 per cent over the Pre-War level to which the Esher proposals will add another 50% if they are allowed to materialise in all respects. The Army in peace time would then cost us over Rs. 60 crores a year as against the 30 crores of pre-war times, let alone all hope of reduction of armaments.

† In the evidence before the Welby Commission Mr. Gokhale gave the following comparative statistics of the proportion of military expenditure to the total expenditure in the principal countries of the world.

United Kingdom	..	19 per cent.
France	..	19 „
Italy	..	13 „
Japan	..	16 „
Greece	..	13 „
British India	..	35 „
British India omitting Exchange	..	30 „
Russia	..	21 „

In the same statement he quotes Mr. Kellner's estimate as authority for the statement that financially 7 native soldiers are equal to 3 European soldiers. Recent disclosures put the ratio at 4 Indian Soldiers being equal to one British Soldier in cost.

‡ Burma, for a long time after its acquisition was a white elephant to the Government of India. If as the result of this war, Mesopotamia is annexed to the British Indian Empire the tale would be logically completed and brought up-to-date for its administrative charges are bound to absorb more than the possible revenues in a province to be newly settled. The deficit will then have to be borne on the Imperial revenues of India.

Anglo-Japanese alliance—which reveals a deep rooted distrust of the Indian people after sixty years of unbroken loyalty—makes further increase in the army expenditure absolutely unnecessary and its reduction innocuous. As regards the maintenance of internal peace, the manifestation of anarchical tendencies in isolated instances by warm-blooded, well-meaning, but gravely disappointed youths did, indeed, supply a plausible, though grotesque pretext for the maintenance of 300,000 men fully armed with the latest description of destructive weapons, to put down perhaps not more than 30 individuals of heated, youthful imagination playing at terrorism with picric acid. But even if that excuse was acceptable to the scared officials in the last decade, it may at least be conceded now, after the proofs given by India of her loyalty in the present war—that increased Military Expenditure on that account is unnecessary. *

The last and the most important criticism against this change in policy is that—even admitting its wisdom and necessity—it imposes unfair, disproportionate burdens on India. If the annexation of the frontier territories be an object of the Indian Army; if the maintenance of the balance of power in Asia is desirable—these are objects imposed upon us by Imperial considerations which are, to say the least, as beneficial to England as to India. Of the total military strength of the British Empire India has supplied the largest proportion and borne the largest share of such expenditure after England. The advantage of such armies is common to the Empire, though its greatest benefit is to England. Why then should England not bear a share of such increased expenditure on the army maintained in Imperial interests? Parliament has decreed by solemn sections of the various Government of India Acts that the revenues of India shall not be employed for military operations beyond the Frontiers of India without the consent of Parliament—the object being to keep in check the instinct and traditions of aggrandisement of an irresponsible bureaucracy. Yet in every instance in which the troops of India have been employed outside India the sanction has been granted as a matter of course without a thought for the true interests of India. With one single exception of Gladstone's contribution of £5 millions towards the cost of the Afghan War, Parliament has never protested against the chauvinism of the Indian Government.

Coming next to the criticism of the Indian Military Policy from the standpoint of details of expenditure the first point to be noticed is (1) the amalgamation of the European troops in India with the whole British Army. Elsewhere the point has been discussed and the benefits and demerits of a local European army have been examined. Here it is necessary only to add that thanks to this amalgamation, the Government of India has had to pay more for its European forces than if they had been recruited in the country itself. Every change in the Military Finance introduced in England, and suited to the riches and rivalries of England in Europe, has had to be introduced in this country. And in return for that

* The report of the Rowlatt Committee disclosed what is seized upon by interested parties as a wide spread conspiracy to over throw British rule. It is to be hoped, however, that the manufacture of such official excuses will be dispensed with under the approaching regime of self-government, though the sad story of Delhi and the Punjab in the spring of 1919 makes no very encouraging reading.

heavy expenditure India does not obtain the full benefit of the experience of the British troops. From the stand-point of the people and the Government of India the scheme was found objectionable at its inception.* Besides, the general proportion prescribed by the Army Amalgamation commission required one European soldier to every 2 Indian soldiers in Bengal and to every three in Madras and Bombay. Such a proportion, necessary to those who like Sir John Lawrence were convinced that the Mutiny had been the result of the disproportion between the Indian and the European troops on the eve of the Mutiny, does scant justice to the proved loyalty of the Indian troops for now more than two generations. The necessary margin of personal safety to the alien rulers of a large country like India, may demand the maintenance of a considerable proportion of the troops from their own race, even though at a very great cost; but the present preponderance in Artillery and the new modes of destruction in War-time, which are necessarily in the hands of the English soldiers in India, may be considered to give all the requisite margin of safety to a people who take their stand more on the justice and excellence in their administration than on their excellence in Military science or Military strength.

This section of the Indian Army, consisting of the British Army serving for the time being in India, causes the gravest financial anxiety to the Government of India. The charges payable to the War office under this heading, as detailed and explained in a note elsewhere, are a most important factor in the uncertainties of the Indian Finance, a most grievous burden on the people of India, supportable, possibly, on dead actuarial rules, unsupportable on any other grounds. Under the variety of heads, Capitation charges, Depot and Transport charges, Stores, Regimental Pay and Pensions for Officers and Soldiers, Absentee and Furlough allowances, Field Arms Ammunition and Ordnance Charges, and other miscellaneous heads, the War office makes an annual drain of nearly ten crores of rupees. The Government of India have themselves protested again and again against this uncontrollable drain. But unsupported by the people of India in that contention, they have so far proved helpless before the war office statisticians and other experts.† Though the total number of British troops in India have been increased materially, the charges in respect of them have been very nearly doubled. ‡ Unless this factor is removed or rigidly controlled by the Government of India—an impossible condition from the nature of the case, —a radical reform in the military finance of India seems inconceivable.

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* See the evidence of Sir George Balfour before the East India Finance Committee, 1871-74. Also the opinion of Prof. Fawcett.

† As regards the cost of a European soldier in relation to the similar cost of an Indian soldier, the following extract from a paper recently read before the Deccan Sabha by Sir D. Wacha is interesting. "It appears from the finance and Revenue accounts for 1909-10 that the total cost of the European Army consisting of 2469 officers and 72,799 Warrant officers and soldiers in all 75,268 is a sum of Rupees 3.60 crores by way of regimental pay and allowances, provisions and the charges paid in England. The total cost of the Indian army consisting of 3,015 officers and 160,411 Warrant officers and men, in all 163,426 came to 6.40 crores for regimental pay, allowances and provisions. Thus each European costs 1,142 rupees and each Indian 392; in other words it costs three times more to maintain Europeann troops than Indian." At the present time the relative costliness of the European soldier is much greater, being Rs. 2,110 per head of European Soldier and Rs. 500 for an Indian Soldier. If the Esher suggestions materialise, would be still more heavy.

‡ In their despatch dated 25th March 1890 the Government of India wrote (Para 7) "The actual cost to the British Exchequer, if calculated by a purely arithmetical method, is undoubtedly the cost of the

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As already observed, the benefit of the British Army in India is by no means assured to India. In the event of an Indian necessity conflicting with the Imperial demands, the Government of India have themselves doubted whether they would be able to command the services of British troops in India, let alone the reserves for which India pays a proportionate pension charge. The regiments, batteries and drafts sent out to India are despatched during the whole of the trooping season to take the place of men returning home discharged, invalided or dead. The assumption of the War office that India would be able to command at least 11,500 men as her 'First Reserve' will hold good only in the event of a War breaking out at a particular moment when the trooping season is just about to commence. If war broke out after the trooping season had closed those 11,500 could not be available as a "First Reserve." Moreover, it is not quite beyond probability that the identical circumstances which demand mobilisation in India might also require instant mobilisation in England as well. The latter country under those circumstances would not be able to part with the small number of regular troops maintained as Reserves. Finally, the Short Service System introduced in the English Army by Lord Cardwell, has turned out to be a heavy charge on India without a corresponding benefit. The new industrialism of the Nineteenth Century had destroyed all taste for soldiering in the English mind, and consequently such a short service system was necessitated by the peculiar conditions of that country. But the same can hardly be said of India, of even the British section of the Army in India. Yet, the amalgamation of the armies made it inevitable for the country to adopt the scheme, however costly, unsuitable, or unnecessary it may have been under Indian conditions. The only net result as far as India was concerned in this change, was an increase of the annual Transport Charges of the British troops to and fro India. Perhaps even this defect might have been, to some extent, counter balanced if we had an effective Reserve of the same kind in the country. But, as already remarked, though India pays her share of that Reserve, she cannot always count on getting it in the moment of her gravest need.

But perhaps the greatest error of the Indian Military organisation combines financial and military evils in an almost equal proportion. From the Company's days of constant conquests, the Army in India has been organised on a war footing. There is no separate peace establishment, as distinguished from the War Establishment,

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force in the United Kingdom, which would not need to be kept up if the Empire of India did not exist, and no army had to be maintained in India; but it is nowhere provided that the charges raised on account of that force represent the actual extra cost to the British Exchequer, while there are many other conditions which would have to be considered before this method of calculating can be adopted and accepted. The difficulties in the organisation of the British Army and the necessity for inducing men to join the Army cannot be admitted to arise from the presence of a portion of the Army in India. These difficulties, we apprehend, arise from a variety of causes which have no direct relation to India." Among other similar despatches of the Government of India the following may be specially mentioned :—

Despatch dated 8th February 1878
" " 22nd May 1879
" " 21st November 1884
" " 25th March 1890
" " 20th February 1895

Mention must also be made of the Committee presided over by Lord Northbrook and appointed to arbitrate between the Government of India and the War Office, and reporting largely in favour of the Government of India.

so that military charges in India are in no way different in the war times or in peace times, except possibly in the necessarily greater extravagance and laxer control in War times. The total strength we can mobilise in the event of a war is about 250,000 men of all arms, in round figures. For this in the last year before the Great war we spent nearly 30 crores of rupees. In European countries like France or Germany, before the present Democratic Republic was born, they have adopted the system of short service and Reserve which gives them a maximum of combatant strength at a minimum of cost. *

India has, relatively speaking, no Military Reserves. The Simla Army Commission did indeed propose the formation of a double Reserve out of the discharged Native soldiers, in the hope that such reserves might enable the Government to reduce its normal peace-time Military Budget without causing any Military or political danger. But the system of territorial Reserves for India was vetoed by the Secretary of State for India. And though the Regimental Reserve formed in 1886 was a step in accordance with the best military opinion and policy, it still remains a very small fraction of our standing Army, utterly insufficient to reduce the Military Budget. Perhaps this absence of any considerable reserve is to be traced to the distrust of the Indian people which has, in spite of protestations to the contrary, throughout characterised the Military policy of the Government of India. To arm the people may assure a better defence of the country, but until an alien conqueror can be assured of his own complete safety under a measure of national training for Defence, he would scarcely venture on such a step. And in the nature of the case such an assurance would be impossible to give, or incapable of belief if given. That since the last Mutiny there has not been a single attempt against the British Rule in India; that in every crisis, such as there have been, the propertied and educated classes have steadily supported the only Government capable of maintaining the vested rights of Native Despots and higher castes, of Marwari-Money lenders and Bengal Land owners; that the progressive section of the Indian people have begun to perceive the wasteful character of an aggressive attitude in face of the world forces, and are also accepting the Western Maxims of Government as the only suitable axioms for a people intending to be progressive; that in the last great struggle India has been able to do little, beyond placing her standing Army at the disposal of the Empire; are all considerations insufficient to bring conviction to the minds of her rulers as to the wisdom and expediency of organising the people of India for their National defence. The legend of the British holding of India for India's own interests

* Country	Army strength Active list.	Reserves	Military Exp. (Annual average). £
United Kingdom ..	129,400	480,700	28,000,000
France	677,580	2,952,780	28,000,000
German Empire.. ..	610,000	3,400,000	38,000,000
Japan	210,000	830,000	11,000,000
India	156,600	67,000	20,000,000

For an effective Military strength of one third (approximately) of France or Germany, we spent in India 75 % of the French military Budget and over 50 % of the German Military Budget. If we include the Reserves ours would probably be the most costly Military Budget in the world in proportion to the force we maintain.

which many an honest Englishman perhaps honestly believes in and which Anglo-Indian statesmen and bureaucrats have made themselves believe by constant repetition, finds some justification by such devices as the Arms Act and the utter exclusion of Indians from Military offices. It is possible now to bewail, with some show of truthfulness, and in a spirit of virtuous indignation, the utter inability of the people of India to defend themselves against outside aggressors. Unless the present Government of India takes heed and makes some fundamental reform, it would be very much mistaken if it should expect to be blessed by the succeeding generations in India. India, it may be said, would be unable to defend herself against civil strife or external aggression, in the event of the present Government being overthrown before the people are trained and able to undertake their national defence. *

In a work of this kind we are not primarily concerned with questions of a Constitutional description regarding control of the Indian Army. The Government of India, being what it is, the concentration of Military matters in a single omnipotent Commander-in-chief does not make for military economy. It may even be doubted if it adds to the efficiency of the Commander-in-Chief, as a soldier. In the Supreme Council he is the expert—the only expert—, in all matters relating to the Army. Hence any check on his estimates is almost impossible by mere civilians holding their position in the Government in virtue of military domination. If a strong Viceroy should try his hand at economy, there is ever ready the bogey of frontier trouble † and internal unrest to frighten away the struggling spirit of civilian control or financial

* The spirit of distrust is nowhere so clearly evidenced as in the system of officering the Indian Army Under the Company's rule in the Regular Regiments, out of a total nominal strength of British officers few remained with the Regiments, the rest being employed in civil and other duties. In Irregular Regiments there were only three British officers the rest being all Indians. In the reconstructed Army after the Mutiny the irregular system was adopted throughout with this change that the number of British officers with the Indian regiments was increased from 3 to 7 in 1861. In 1874 this number was further increased by the addition of two probationers to each corps, increased still further in 1884-85. Before the Mutiny, Indian officers in Irregular Regiments were in command of troops and Companies, but in the Re-constructed Army under the Crown, in spite of all the Proclamations and Acts of Parliament guaranteeing equality of treatment, they have no such responsible duties. The British Agency substituted is at once more costly and more clear proof of the distrust of the Indian people. (See Chesney's Indian Polity" Ch. 16 Edn. 1894). The only possible excuse of this progressive discontinuance of the Indian officers from the Army is their alleged want of the requisite education and training. Besides the possibility of a suspicion as to whether the raw young Englishman fresh from Sandhurst is better all round as an officer than the oldest Indian Veteran in the Regiment, one might ask whether suitable opportunities and encouragement has been provided for Indians to acquire the technical knowledge for army matters, and whether after such opportunities Indians have been found wanting. On the contrary, if we are to believe the current rumours, it seems those Indian chiefs who ventured to serve in person for the British Empire in the last Great War, were studiously kept from the real battle experience on one ground or another, and encouraged to belaud themselves as heroes by virtue of the uniform they could sport in the Empire or the Alhambra.

In his Budget speeches the late Mr. G. K. Gokhale again and again asked for an extension of Army recruiting—if it was necessary—among the people of India with a view eventually to raise an army of Citizen-soldiers, in place of the foreign mercenaries. Convinced as he was that three European soldiers were equal in cost to seven Indian soldiers, he could advocate the measure as much on national as on the narrower financial grounds. In the true spirit of moderation, he realised the difficulties of a foreign Government to carry out such a suggestion, and accordingly urged that the first step be taken by extending recruitment to selected classes of well-known martial races of India, gradually extending the duty to other provinces and races. The only answer to his suggestions was the Kitchner edict definitely closing the Madras Presidency as a military recruiting ground.

The necessities of the Government in the last war, and the loyalty of India to the British Empire during the struggle, emboldened the Government to sanction the formation of a Bengali Regiment as also that of the Indian Defence Force. Similarly Commissioned officers ranks in the Indian Army have been thrown open to the Indians. The experiment is yet too recent to allow us to say more than just welcome it as a step in the right direction, which, however, will bear no fruit if those responsible for its extension still continue to be actuated by motives of distrust of the Indian people.

† The speeches of the Afghan Delegates at the last Peace Conference which put an end to the Third Afghan War seemed to hint at Indian Government machinations as having been responsible for the outbreak of the hostilities. But of course, this must have been an enemy dodge to discredit our government undeserving of any belief in India, ! ! !

economy. Before the Curzon-Kitchener controversy, which, by the by, has ended in the Mesopotamia Commission Report and the sudden death of an ex-Indian Commander-in-chief, the Viceroy had the power to check the military estimates with the aid of the military member of the council. Of course if the Viceroy was weak or militant, or if his Finance Member was indifferent, the military element in the supreme Government by the freemasonry of the *esprit de corps* among the military representatives in the Council could always rely on having their own way. As a matter of fact the Army increase under Lord Dufferin was brought about in spite of the protests of the Finance Member. But now-a-days there is no possibility of even such a check. The only way to remove the military incubus is to place military estimates under civilian scrutiny and control, as in England, preferably the civilian controller of Military estimates to be an Indian. The Commander-in-Chief should at the same time be relieved of his arduous duties in the Imperial Executive Council and be freed to devote himself entirely to his profession. *

* The Nicholson commission on the reorganisation of the Indian Army reported in 1913-14. But as the report was not unanimous the Government of India has thought fit to suppress it altogether. Quite recently another Indian Army Commission has been appointed to discuss questions relating to the organisation of the Army in India. It is to be hoped that though the composition of the commission may well raise some doubts, efficiency will be combined with cheapness in the recommendations they make.

Since the above was written, the Report of the Easher Committee has been published, and the hope expressed above has been disappointed. For one who has not adopted the principle of Non-co-operation it is still open to hope that these recommendations will not materialise.

One feature of the Indian Army already touched upon in passing and though no longer of any great financial importance may be mentioned here. In the past it has caused great waste. The history of the Indian staff Corps is given elsewhere.

The suggestion for creating special new member of the Executive Council, made by the Esher Committee with reference to the supply and manufacture of munitions, must be rejected on grounds of economy if nothing else. The suggestion made in the text is, it will be noticed, radically different.

CHAPTER IV.

MAINTENANCE OF PEACE AND ORDER—DEPARTMENTAL EXPENDITURE.

Our second group of public expenditure includes :—

(1) Expenditure on Courts of Law, Police and Jails; (2) General Administration under which we may include Expenditure connected with the collection of Revenue; Salaries and expenses of civil departments, and similar other expenditure;* (3) Political expenditure, comprising expenses of legislative machinery, Central and local, representation of Government of India abroad by Political Residents, Consuls and Agents, and payments made under treaty obligations to Native States or Frontier Tribes, or the Subsidy of the Amir of Afghanistan.† (4) Non-effective charges, including Pensions, whether Territorial and Political Allowances, or superannuation allowances which are called Pensions proper, Furlough and Absentee allowances ‡ (5) Miscellaneous charges, including Refunds and Draw backs, Assignments and compensations, which are not really expenditure but excess collection of revenues that have to be returned.

Following our general treatment, we shall discuss the first principles governing this kind of expenditure, next give an historical outline of Indian public Expenditure under these items, with such reflections and suggestions as may appear necessary.

XVIII.—EXPENDITURE ON JUSTICE, JAILS AND POLICE.

Public expenditure on the Administration of Justice forms an integral part of public economy in all modern states. The maintenance of a judiciary is not merely a symbol of Sovereignty; it is indispensable under the existing social organisation. The progress of civilization has transferred the Administration of Justice in Aryan countries from the locally elected, and often unpaid, officers,

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* The heading Salaries and Expenses of Civil Departments in the Accounts of the Government of India includes most of the items classed above in sub-headings other than (2). We have elsewhere given reasons to show why that classification is not desirable. The scheme here adopted is also explained in principle there.

† The Welby Commission Report, as already observed, included political Charges under the general heading of Defence. "Political service represents the cost of the Foreign Office in India. The charges included in this chapter belong to foreign policy rather than to domestic administration; we therefore class them under the head of Defence and Foreign Affairs. They comprise charges incurred on the North West Frontier, Frontier levies, political subsidies to the Ameer and others and special mission" (para 220 Majority Report.)

It will be noticed that the group including political charges, as given by us is much wider than the group conceived by the Welby Commission. Besides there would be some affinity between political and military expenditure if we could be assured that all expenditure on the Foreign office results in avoiding or accelerating Military charges. As a rule, however, the ordinary expenditure on Foreign relations is for the preservation of peaceful intercourse between the Nations of the World. The moment that intercourse is stopped, the bulk of the Foreign charges come to an end. It would be therefore better to class such expenditure along with the Political Expenditure at home under classes of items indicated above. Besides in India the greater portion of the political charges in connection with the Native States are really more like domestic administration charges than anything else.

‡ It would add very much to the clearness of the discussion could we but separate the Pensions charges of each department and consider them along with the expenditure of that department. But it would be practically hopeless to try and make such a distinction.

to the present day highly centralised, monopolised, overpaid system of judicial administration. The transition was no doubt inevitable, and possibly beneficial. The political re-grouping which substituted the highly complex modern Empire in place of the Self-Governing Village Community of the ancients could not be compatible with an administration of justice left to the local units guided by local customs. With the change in the administration of justice came a change in the spirit of the laws. Instead of the independent, isolated customs of each self-contained community there grew up an elaborate, intricate system of codified laws administered of a necessity by highly trained legal artists. And these artists must be paid, when appointed administrators of law, not in proportion to the service they render but in accordance with the emoluments they forego by giving up their private practice at the Bar. This is not so common in other Aryan countries as in England and countries adopting the English ideas of political civilization. In other countries the Advocate has not quite succeeded in effacing the Jurist. But when the judges are made the interpreters as well as the guardians of the Constitution it follows that a certain amount of fearless independence must be postulated in the choice of the Judicial officers. Hence in these countries they have been obliged to adopt the double expedient of paying very high salaries to competent, independent men to become Judges, at the same time dissociating the Judiciary from the Executive authority of the State. High Judicial office thus comes to be reserved more as a prize for successful advocates when they retire from the active practice of law than as a matter of course for the ordinary hierarchy as provided in other administrative departments. *

With regard to the Public Expenditure on Police we have already observed elsewhere why we cannot regard this expenditure as on a level with the Expenditure for National Defence. Police charges are in reality an appendage to the Judicial Expenditure. As the army is the ultimate appeal of the community vis-a-vis other communities organised as States, the Police is the ultimate appeal of the community against each of its members,—the citizens. All the reasons which require the expenditure connected with National Defence to be met out of the funds of the Central Government suggest that Police Charges be met out of Local Funds wherever such a distinction is possible. Police activity and utility is essentially local and must therefore be paid out of and controlled by the local authority.

The theory of Prison Charges,—or punishments in general—acceptable to-day-demands that all prison organisation should be so framed as to wean the criminal

* The distinction between the Jurist and the advocate, irrelevent otherwise, is useful in this connection in so far as it draws attention to the increase in cost of judicial administration entailed by this system. The figures representing the cost of judiciary and Police services, as well as the punitive organisation of jails and reformatories, represent only a small fraction of the total cost to the community resulting from this system. The high fees paid to Counsel, though impossible to be estimated accurately from such meagre records as the Income Tax Returns might furnish, must be regarded as a net tax on the community indirectly levied by the legal profession for its services, in no respect differing from the duties levied for purposes of protecting the industries of a country on similar articles imported from abroad.

It may be added here that the High Court Judges—and *a fortiori* all lower judicial officers—cannot quite claim the independence characteristic of the judiciary in England. The Judges are appointed in India **during the pleasure of the Crown** and not during good behaviour as in England; a good proportion of them consists of civilians who have been accustomed too long to obey their superiors to become independent—as judges should—all of a sudden; and the chances of promotion to still more imposing executive offices expose them to just a suspicion that all judges cannot afford to be inconveniently independent.

from his criminal tendencies and make of him a useful member of Society. Crime must be regarded as an indication of insanity not an occasion for organised revenge. Legal punishment should not be the result of the social instinct for revenge but rather the offspring of pity for the erring members of society. In all countries claiming to be civilised Prison organisation, work and discipline should be so arranged, no matter what the cost, as to eradicate the criminal tendency.

As regards the sources from which this branch of public expenditure ought to be defrayed, there seem to be three possible alternatives; Judicial revenues in the shape of Court Fees and stamp duties on legal documents; Fines and Penalties imposed by the Civil as well as the Criminal Courts; general taxation of the community at large. No authority has explicitly declared that the administration of justice should be conducted on the commercial principle of making the department at least pay its own way from its revenues, if not to leave a surplus for the general benefit. Without accepting this commercial principle it may yet be admitted that the system of making litigants pay for their suits would tend to discourage unnecessary-litigation,—by no means an unknown or uncommon complaint in our highly civilised states founded on Commercial Morality. But it has the undeniable drawback of deterring parties from seeking their rights if the cost is too great or even important enough for them to think before instituting a suit. Besides, there would always be the possibility of making a really vexatious litigant pay for the misuse of the common privileges of citizenship by extra taxation on too frequent a litigation without basis in fact or law.* If the expenses of the Judicial department are paid out of its own revenues the officers concerned would be exposed to the serious temptation of increasing their emoluments by showing a growing source of income from their department, not to mention the most serious disadvantages of the system that a payment of Judicial officers by a percentage on receipts would afford an unfair advantage to the rich suitor as against the poor. We cannot look upon Judicial fees quite in the nature of penalties paid by the party at fault, even supposing that were desirable. Civil suits do not necessarily originate in the dishonesty or culpable intentions of one of the litigants. Modern laws leave considerable room for a genuine difference of opinion. Witness for example the frequent cases in which the decisions of the High Courts are reversed by the Appeal Courts. And in criminal justice the condition of paying fees before instituting prosecution would result in reversing our modern civilization and compel us all to be duellists by necessity. Fines and penalties in criminal cases may, indeed, be regarded as another aspect of fees, and a system of graduated money payments for different crimes may have its own recommendation to a reformer of modern criminal jurisprudence who would abolish all physical punishment, from flogging to beheading. But most of the criminals would be unable to bear this alternative; and there are some crimes, like

*The frequency of too many appeals, which is such a predominant characteristic of the Indian judicial system, might be taxed much more effectively and progressively if it can be proved to have occasioned misuse.

murder or rape which the social conscience would have to be educated much more before it would consent to accept pecuniary compensation for what so far the majority has regarded as irreparable injuries.

But because we cannot accept a system of fees, fines and penalties as the only source of Judicial expenditure, it does not follow that the Judicial fees should be utterly abolished. Under proper precautions they would be a salutary deterrent to unnecessary litigation, at the same time acting as a harmless source of public revenues. When levied upon documents of a legal or commercial character, the stamp fees would in no way be burdensome. Apart, therefore, from such service as the receipts of the Judicaial department in the shape of fees etc. may render to the public Exchequer, the cost of this department must be borne by the public purse. And that cost is bound to grow as population and the complexity of social relations increase. Any section of that cost unexplained by these factors will have to be explained by the excessively high salaries paid to the Judicial Officers in countries adopting the Anglo-Saxon principles of judicial administration. The only way to reduce the cost, when it becomes disproportionate to the service or benefit rendered, is to encourage arbitration, to organise a system of voluntary justice by locally elected tribunes of the people,—by reverting in fact to the ancient principles of gratuitous judicial service, in so far as it would not be inconsistent with our modern civilisation. This expedient—so long a characteristic of the English Judicial system in the person of the Justices of the Peace,—may reduce the cost to the State without being a real relief to the community, unless its concomitant counterpart—the Nationalization of the Legal Profession—is concurrently accomplished. The indirect, but heavy, tax upon the community in the shape of paractitioners' fees can only be remedied if the professional lawyer is made a public servant, guaranteed a living wage, and without any temptation to distort the law or obfuscate the public conscience. *

The annexed table shows the growth of public expenditure in India on these three heads since the transfer of the Government of India to the Crown.

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* That the so-called Learned Professions of Law, Medicine and the Church are not necessarily capitalist in their essence, is evidenced by the existence of Established Churches in many European countries, and by the first rudimentary attempts contained in the British National Insurance Act, as regards the "Panel Doctor." Law as a science will never be properly studied; social psychology never clearly analysed, the scandals connected with the present legal profession, which every lawyer knows, but must not mention as much owing to the mistaken nation of an "esprit de corps" and the compulsion of his Trade Union, as owing to the inherent indolence or apathy towards social problems, which our commercial civilization inculcates, will never be removed unless the present high wages of a few artisans of the legal craft are abolished. By professional etiquette, the lawyer ought to be an aid in elucidating and expediting justice; by practical exigencies he has come to be the greatest obstacle to the simpler, saner, cheaper and quicker administration of justice. The recent work of Sidney and Beatrice Webb on "A constitution for the socialist common-wealth of Great Britain" has an interesting chapter on the reorganisation of the Vocational world.

TABLE SHOWING GROWTH OF JUDICIAL, POLICE AND PRISONS EXPENDITURE IN INDIA.

	Expenditure on Courts of Law.		Expenditure on Police.		Expenditure on Prisons.	
Year.	Gross Exp.	Receipts.	Gross Exp.	Receipts.	Gross Exp.	Receipts.
1858-59	Not available	..	..	..	..	..
1859-60	..	..	..	..	..	..
1860-61	£ 2,033,865	..	£ 2,219,230	..	..	..
1861-62	1,951,217	£ 511,513	2,163,163	..	..	..
1862-63	2,074,146	474,842	2,141,269	..	..	..
1863-64	2,120,636	631,798	2,300,482	..	..	..
1864-65	2,243,065	527,830	2,361,011	£ 148,166	..	..
1865-66	2,423,206	653,628	2,384,313	146,901	..	..
1866-67	2,397,788	627,050	2,262,921	188,169	..	..
1867-68	2,544,349	719,342	2,434,125	231,972	..	..
1868-69	2,845,447	889,856	2,476,580	277,239	..	..
1869-70	2,902,926	828,515	2,435,131	287,459	..	..
1870-71	2,996,190	746,898	2,275,335	270,971	..	..
1871-72	2,273,813	373,160				
1872-73	2,222,175	392,686				
1873-74	2,266,179	359,146	Included under Prov. charges.			
1874-75	2,298,180	321,798				
1875-76	Rs. 3,21,24,471	79,64,600	2,13,00,488	8,41,600	..	..
1876-77	£ 3,275,821	789,828	2,158,032	64,279	..	..
1877-78	3,208,638	618,388	2,487,615	255,254	..	..
1878-79	3,336,310	647,131	2,423,627	211,108	..	..
1879-80	3,320,677	658,902	2,497,755	227,657	..	..
1880-81	3,249,799	687,764	2,526,663	242,769	..	..
1881-82	3,232,788	677,454	2,553,861	248,005	..	..
1883-84	3,238,896	573,859	2,761,054	311,874	..	
1884-85	3,305,978	546,059	2,832,725	319,400	..	..
1885-86	3,352,284	577,709	2,852,724	321,011	..	..
	Rs.	Rs.	Rs.	Rs.		
1886-87	..	58,71,960	3,28,50,970	31,58,630	..	..
1887-88	..	57,18,500	3,69,36,210	35,02,930	..	..
1888-89	..	59,56,110	3,75,42,940	35,29,970	..	..
1889-90	..	..	..	..	..	..
1890-91	..	..	..	..	..	..
1891-92	2,84,00,070	37,58,430	3,86,86,100	38,15,400	89,97,320	31,12,970
1892-93	2,87,71,120	37,74,440	3,87,36,450	39,59,670	91,80,600	30,91,970
1893-94	2,99,64,600	37,24,050	3,91,97,850	41,75,310	92,40,530	30,61,910
1894-95	3,07,05,750	37,04,820	3,98,90,030	40,62,220	90,51,400	30,88,780
1895-96	3,09,08,700	37,78,740	4,04,08,170	41,78,200	95,67,620	31,22,980
1896-97	3,09,68,930	35,61,840	4,15,65,600	43,69,160	108,22,460	30,87,303
1897-98	3,13,71,910	35,69,130	4,23,39,230	44,83,300	111,87,030	30,62,800
1898-99	3,07,41,260	36,88,630	4,18,07,170	43,62,040	102,88,210	30,85,530
	£	£	£	£	£	£
1899-1900	2,081,449	236,017	2,851,296	284,190	684,235	226,905
1900-01	2,124,314	228631	2,917,986	298,895	797,059	245,121
1901-02	2,157,742	232,211	2,957,066	293,576	771,566	250,522
1902-03	2,215,304	243,369	3,019,744	307,514	725,505	236,302
1903-04	2,276,666	258,166	3,087,309	323,060	713,113	240,612

1904-05	2,238,250	254,292	3,158,815	328,393	706,549	245,405
1905-06	2,409,754	277,747	3,363,586	324,690	793,399	253,230
1906-07	2,540,828	273,595	3,692,348	314,292	843,104	251,719
1907-08	2,592,452	264,087	3,813,354	153,651	856,766	254,403
1908-09	2,753,587	280,117	4,196,222	158,123	932,996	246,234
1909-10	2,756,749	293,339	4,222,306	148,950	853,084	230,155
1910-11	2,867,030	330,663	4,351,612	155,373	851,217	237,791
1911-12	2,981,996	323,660	4,602,977	122,738	842,732	253,354
1912-13	2,990,302	352,051	4,658,000	135,553	873,668	270,062
1913-14	3,088,160	373,791	4,864,990	130,339	982,903	280,448
1914-15	3,292,254	404,568	5,237,008	141,281	1,018,543	296,534
1915-16	3,353,938	413,545	5,353,615	143,199	1,042,520	299,225
1916-17	3,307,026	414,799	5,424,190	155,038	1,086,422	345,725
1917-18	3,320,782	435,150	5,617,087	133,246	1,149,321	379,683
1918-19	3,449,464	420,943	6,109,726	185,837	1,409,471	511,728
1919-20R.E.	3,712,300	485,600	6,000,000	170,600	1,563,200	413,600
1920-21B.E.	3,834,400	464,700	6,952,700	140,000	1,457,100	417,300

The figures given are compiled from the Financial statements and the Finance and Revenue accounts of the Government of India. It will be noticed that the figures are not uniform. The separation in the three branches was not recognised in the earlier years, and consequently we have not been able to give the figures of 'Jails' Expenditure in the early years separately. In the first year for which the figures have been given no distinction has apparently been made between gross expenditure and net, the figures of departmental receipts being omitted. Finally, in comparing it must be remembered that the figures in sterling for earlier years represent a conversion of rupee figures at the conventional rate of Rs. 10=1£.

Year.	Population of British India.	Judicial &c. Expenditure.
1870-71	185,163,435	42,53,656
1880-81	198,882,817	48,46,929
1891-92	221,240,836	Rs. 65,39,669
1901-02	231,605,940	£ 51,10,065
1811 12	244,267,542	76,27,953

In connection with the Indian Expenditure on Justice, Police and Jails it may be observed that the table in the margin, in spite of its many defects shows an increase of expenditure out of proportion to the increase in population. The following table deduced from the other table shows a decennial increase in percentage of population and of expenditure under these heads.

Between	1871 & 1881	Population increased		7 per cent.,	& Expenditure		14 %
„	1881 & 1891	„	„	11	„	„	33 %
„	1891 & 1901	„	„	5	„	„	16 %
„	1901 & 1911	„	,	5.5	„,	„	25 %

This continual tale of growing expenditure was accounted for by several causes such as the increase in the pay of the subordinate Judicial staff &c.

Against this must be set off the following tables which go a long way to show that the Courts of Law in India are self-supporting, if not a source of revenue to the Government.

Receipts (including Court fees, stamps) and charges connected with the Courts of Law.

Receipts.	1909-10	1910-11	1911-12	1912-13	1913-14	1914-15
1. Sale proceeds of unclaimed and escheated property	1,90,429	2,23,011	2,22,321	2,23,198	2,32,774	4,89,374
2. Court fees realised in Cash	4,19.973	4,53,614	4,65,484	4,51,591	4,63,956	5,29,004
3. General fees Fines, &c.	33,10,464	35,32,614	36,61,659	41,67,047	44,34,173	5,29,004
4. Other receipts	4,79,213	4,50,708	5,05.358	4,38.923	4,75,962	5.32,226
5. Court fee stamps & plain paper ..	4,66,24,121	4,96,88,352	4,88,85,517	5,06,05,217	5,27,70,185	5,24,85,951
Total Receipts.	5,90,24.200	5,43,48,099	5,37,40,339	5.58.86,892	5,83.77.060	5,86,54,473
Expenditure.						
1. High Courts, Chief Courts. Jud. Com. Recorders Courts	48,12.194	50.90.898	52.33,197	55,50,970	56,64,177	59,20,961
2. Law officers and Administrators General	24,53,933	30.68,913	29,69.767	26.94,463	28,57.789	*33,55,666
3. Civil and Sessions Courts	1,79,62,911	1,83,22,317	1,92,42,488	1,92,01,847	1.98,84,131	2,06,55,848
4. Small Causes Courts	7,94,868	8,12,855	8,30,117	8,31,449	8.40.366	8,47,340
5. Criminal Courts	1,45,36,200	1,48,54,314	1,55,83,805	1.56,84,950	1.61.39,549	1,76,43,559
6. Coroners & Presidency Magistrates ..	3,01,319	3,47,592	3,32,009	3,14,628	3.39,846	35,698

7. Refunds	5,19,243	4,57,225	4,55,888	5,18,859	5,59,398	558,576
8. Miscellaneous	23,381	30,753	35,330	32,366	34,844	32,745
India (Total Expenditure)	4,13,47,382	4,29,84,867	4,46,82,901	4,48,29,512	4,63,20,010	4,93,71,679

Though this table shows a margin on the receipts sides, if we include the receipts from Court Fee Stamps and legal documents, of nearly one crore, we must remember that the expenditure given above does not include the rent of Court houses and the pensions of Judges. Moreover a good deal of Judicial expenditure is included under the Land Revenue Charges which it would be difficult to distinguish from administrative expenditure proper. We cannot, therefore, regard the Judicial Department of the Government of India as a source of revenue in spite of its showing a credit balance, though, of course the revenue from stamps forms a considerable proportion of the total revenues.*

As regards the Police Expenditure, the following table gives an analysis of the items of receipts and charges under that head.

* Apropos of the Judicial &c. Expenditure of the Government of India, the Welby Commission remarked :—

"The increase since 1875-76 (apart from exchange compensation) is 30 per cent. It is without doubt a large amount, but we feel assured no one will criticise reasonable expenditure in improving the administration of justice. We have at the outset to call attention to a fact which distinguishes the chapter of "law and justice", from other chapters of the Indian budget. **The increased grants for this service have been provided without imposing any burden on the general tax payer ; for the** receipts from the Court fees and Court charges have increased faster than the increase of expenditure, and the law Courts of India are practically self supporting..........Non-effective service, rents and other expenses not included in that chapter, constituted the sole charge on the taxes, not exceeding probably a sum of Rs. 5,00,000. As the Court fees have been increasing in faster ratio than the expenditure, it seems probable that at the present rate of increase the receipts will ere long balance the whole expenditure on the service."

Items of Police Receipts and charges.	1911-12	1912-13	1913-14	1914-15
Receipts.	Rs.	Rs.	Rs.	Rs.
1. Municipal Cantonment and Town funds ..	54,634	40,995	40,325	29,239
2. Public dept. private Companies & persons.	3,89,859	6,67,610	5,32,866	7,86,760
3. Presidency Police ..	3,70,760	2,36,929	2,62,918	2,50,690
4. Fees, fines etc	7,44,048	8,03,449	8,11,531	7,32,898
5. Miscellaneous	2,81,764	2,84,609	3,07,425	3,19,631
Total Receipts ..	18,41,065	20,33,292	19,55,085	21,19,215
Police charges. ..				
1. Presidency Police ..	32,72,349	31,52,481	33,23,215	34,68,067
2. Superintendence ..	17,60,656	16,75,145	18,24,658	18,04,875
3. District Force	4,80,25,570	4,91,55,704	5,15,83,956	5,39,15,479
4. Govt. Ry. Police ..	17,66,637	17,38,277	15,87,293	19,44,646
5. Criminal Investigation Dept.	18,56,407	17,94,234	21,16,907	24,71,350
6. Village police	34,40,571	33,81,891	32,99,471	56,85,800
7. Special	85,41,931	85,97,989	83,89,786	86,98,648
8. Cattle Pounds	3,08,969	3,13,173	3,06,425	3,08,898
9. Miscellaneous	34,497	40,762	2,18,694	2,39,281
Total India	6,90,99,687	6,98,49,656	7,29,50,405	7,85,37,049
Total Gross Police Expenditure (India & England)	£4,602,977	£4,658,000	£4,864,990	£5,237,008

The present organisation of the Police in India dates from 1861, when a wholesale reform was effected in the organisation* of the whole force. The Commission of 1860, appointed to investigate the subject of Police organisation recommended the etablishment of a purely civil force, entrusted with all the civil duties of Police, as understood in England after the Police Reform of Sir R. Peel, including duties of Treasury Guards and Escorts. On the general lines indicated by the Police Act of the Government of India, 1861, the various Provincial Governments enacted their own, local police laws, which combined to effect considerable saving in the Indian Army Expenditure and which were substantially left untouched till the

* Police Reform was first undertaken in India by Sir Ch. Napier while administering Sind, and was modelled on the plan of the Irish constabulary. For the organisation of the Police between 1861-1904 see the Imperial Gazetteer Vol. IV. pp. 385-396.

Police Reform under Lord Curzon. The Report of the Police Commission appointed in 1902, was submitted in 1903.* The Government of India defined their policy in a Resolution issued in 1905. For the higher grades the commission recommended direct appointment, in preference to the prevailing custom of promotion from the lower ranks, to obtain better qualified officers above Head Constables. The entire force was to be grouped under three divisions, the first consisting of European officers recruited exclusively in England; the second consisting of a provincial service recruited from among the natives and residents of India; and the last the subordinate service totally recruited in India. The recommendations for appointments, grades, and discipline were all accepted in principle. In addition to the ordinary police, the commission advocated the institution of a special Criminal Investigation Department to take the place of the antiquated Thagi and Dacoity Department. It was meant to investigate crime and detect criminals. It has earned, in the course of its brief existence, the unenviable reputation for efficiency, purchased at the cost of endless worry to inoffensive individuals suspected of political opinion unacceptable in high quarters. By its methods, no less than by its achievements, it challenges comparison with the secret service of the Romanoffs; and the people in India would probably be not much grieved if it meets with a similar fate.† For the better training of Police officers, special schools were to be instituted in each province. The pay of all ranks was at the same time to be increased—a minimum wage of Rs. 8 to be secured to the lowest constable with increments noted below. The recommendations of the commission, though mostly concerned with the Central force, embraced nevertheless the village Police agencies, which were to be improved. Reforms were also suggested in procedure such as the investigation of evidence on the spot, discontinuance of detention without arrest, discouragement of obtaining concessions.

The Royal Commission on the Public Services in India reporting in 1916 made some recommendations of a minor character affecting the pay, pensions, and status of police officers in India. We shall discuss in the next section the most widely contested question of the number of Indians occupying the superior posts in this as in the other departments. We may here only observe that out of a total number of 1358 posts carrying a salary of Rs. 200 per mensem or more in 1913 only 450 or less than one third were held by Indians; and the proportion rapidly diminished as the salary was increased, being 5 per cent in posts carrying Rs. 500 a month or more and about 1 per cent in posts carrying Rs. 1,000 or more.

* The recommendations of the Commission were made under 127 heads which are summarised above with the utmost brevity.

† See the Budget speech of the late Mr. G. K. Gokhale 1905. In 1912 (27th February) moving a Resolution in the Imperial Council for the appointment of a mixed Commission of Inquiry into the operations of the Criminal Investigation Department, the same moderate statesman mentioned instances of two notable Indians by no means of advanced political views receiving unwelcome attentions from the Criminal Investigation Department. "There can be no doubt that the Police force, throughout the country is in a most unsatisfactory condition, that abuses are common everywhere, that this involves great injury to the people and discredit to the Government," wrote the Fraser Commission; and judging from the latest and most unimpeachable testimony there is little reason to believe that from the Indian standpoint the police organisation is in any way better in 1920, except of course that the total expenditure has meanwhile nearly doubled.

The pay of the ranks can scarcely be described, under the present conditions of famine prices, as a living wage.* And it may be doubted if even in 1905 when the changes were made the increase could have been said to provide a decent standard of living. The low pay of the police has been repeatedly alleged to be a reason of inefficiency, of venality of the Indian Police; but every increase that has been sanctioned has been swallowed to a large extent by the superior European or Anglo-Indian establishment. The Commission of 1916, though urged to recommend a further increased all round, did not, however, feel justified in accepting the proposal.

The police force as a whole, in spite of repeated attempts at improvements, is not yet above suspicion both as regards the honesty of its dealings and the efficiency of its service. The people do not look upon the Police as their natural protectors, and they cannot do so as long as the police permit or countenance, even if they themselves do not originate and manufacture, the fabrication of evidence on a scale exposed by the political trials before Sir Lawrence Jenkins in Bengal.

> "The taint of its earliest antecedents"—wrate the Government of India "still affects the morals of the lower ranks; the constable has inherited the reputation if not the methods of the Barkandaz. .. .. The reconstruction of the Police is, indeed, merely a step, towards the improvement of the administration of criminal justice in India. Success in that higher aim will depend not only on the qualifications and training of the force but even more on the honest co-operation of the people themselves in the work of reform; on the adoption of higher ethical standards, on the diffusion of general education, and especially in its primary branches; on the growth of a genuine public spirit and a sense of common good, and most of all perhaps on the adoption of action in the discouragement by a more healthy and courageous public opinion, of the vicious practice of resorting to the machinery of criminal courts in order to gratify personal animosity." †

The whole of this condemnation and aspiration may be adopted if it were applied to the entire Police force, high or low. The unfortunate consciousness, growing rapidly, of the Police force as a bulwark of the alien bureaucracy, tends to widen the gulf between the rulers and the ruled, and render impossible the indispensable co-operation. **The only way to cure this radical evil is to resuscitate and utilise on a much larger scale the local police agency.** Police expenditure, along with police organisation and control, ought to be transferred entirely to local self-governing bodies. The Government of India would considerably relieve their Exchequer by this means without impairing the efficiency of the force, especially if they retain the right of supervision and offer the temptation of a substantial subsidy to be distributed according to efficiency. ‡

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* The Scale of pay in the Police Department is:—

Constable ..	..Rs. 10 to 12 p.m.	Asstt. Supdt.	Rs. 300 to 500 p.m.
Head Constable	.. " 15 to 20 "	Dist. Supdt. ..	.. " 700 to 1,200 "
Sub-Inspector .	.. " 50 to 100 "	Dy. Inspector General	.. " 1,500 to 1,800 "
Inspectors ..	.. " 150 to 250 "	Inspector General	.. " 2,000 to 3,000 "
Deputy Supdt.	.. " 250 to 300 "		

† Decennial statement of Moral and Material progress. Quotation from Government Resolution.

‡ Under the Reform Scheme since come into operation the recommendation to transfer the entire Police Department to the Local Governments is given effect to. But in view of the new financial arrangements the prospects of the Government of India being able to offer substantial inducements to provincial authorities to improve their Police organisation seem, to say the least, gloomy in the extreme.

In addition to the ordinary police, a force of nearly 20,000 military police is maintained even now, which can be placed at the disposal of the Central and Provincial Governments in case of need to offer immediate protection to the Executive. It is to-day employed chiefly in the yet unsettled districts of Burma, Assam and the North-West Frontier Province. Organised on a military basis, it can guarantee all the protection that can be demanded. Besides in the last resort, the Government can always rely on the Army to maintain internal order, to prevent rebellion, to ward off invasion.

Jail Administration in India was governed by recommendations made by the Jail Commission of 1889, but the subject is once more under investigation by a commission so that remarks on that head would be out of place. The sources of jail receipts and Expenditure are detailed in the subjoined table.

JAIL RECEIPTS AND CHARGES.

	1909-10	1910-11	1911-12	1912-13	1913-14	1914-15
Receipts.						
Sale proceeds of Jail manufactures	29,77,749	30,51,676	32,69,018	34,83,340	37,36,595	38,64,410
Convict Receipts	2,63,217	3,11,929	3,33,955	3,40,938	3,89,235	3,55,807
Miscellaneous	2,11,358	2,03,262	1,07,342	2,26,659	2,00,896	2,27,788
Total Rs.	34,52,324	35,66,867	38,00,315	40,50,937	43,26,726	44,48,005
Charge						
Jail Manufactures	20,96,464	21,31,550	23,37,825	22,38,875	37,52,684	27,74,038
Other Charges	90,73,435	89,55,738	86,94,240	92,58,206	1,03,73,791	10,780,151
Convict ,,	16,234,87	16,78,524	16,01,477	15,89,958	16,12,205	17,14,226
Miscellaneous	2,876	2,444	7,444	6,288	2,512	2,970
Total Rs.	1,27,96,262	1,27,68,256	1,24,40,986	1,30,93,327	1,47,41,192	552,91,385
Net Exp. on Jails.	93,83,938	92,01,389	88,40,671	90,42,390	1,04,14,466	1,08,23,385

If we consider the Jail department independently by itself, it would appear that the expenditure is greater than the receipts of the department. Convicts are employed within the walls of the jails, but sometimes outside work is allowed, as for example when large gangs of convicts were employed in digging the Jhelum canal in the Punjab. Jail products are manufactured in the workshops attached to the Jails. The principle governing the employment of prisoners and convicts requires the task to be penal and industrious, though often jail products are excellent specimens of Indian Art. Though jail industries are conducted on as large a scale as the circumstances would admit, care is taken to see that Jail products do not interfere or compete with the independent work of local traders. To secure this. Jail products are largely utilised by the consuming departments of the Government, such as printing, tent-making, or manufacture of clothing.

The report of the recent Jail commission will necessarily pronounce on questions of Jail organisation, discipline, industry &c. and public policy may quite conceivably alter accordingly.

XIX.—GENERAL ADMINISTRATIVE CHARGES.

Our second head comprises expenditure on General Administration. The remarks made in a previous section with public expenditure in general apply with special significance here. The tendency to increase noticeable in connection with Public Expenditure generally occurs here also, and is explained on the ground of an increase in population, and a change in the conception of the functions of the State. We are discussing separately in the next chapter public expenditure for purposes of Moral and Material Development; we shall therefore postpone discussion of the latter factor. And as regards the first mentioned ground, increase in population by itself would, at most, justify only a proportionate increase in Expenditure, even if we make no allowance for the possible economies due to large scale operations. Besides, leaving out of account for the moment the consideration of a change in the duties of the State, the test of regulating the expenditure by the available income must be applied here, if anywhere, in Public Finance.*

Under this heading of Expenditure on General Administration we include also the cost of collecting Revenues and the cost of Civil Administration.

As regards the cost of collection the fact must be borne in mind that several important items of Public Revenues—e.g. the receipts from all the Public Services and Monopolies ought to be excluded before we can make any valid comparison.† And a proper appreciation of the proportion that the cost of collection ought to

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* The above grouping is not quite in accordance with the classification adopted in the Accounts of Revenue and Finance of the Government of India, which contains one general head called "Civil salaries and Expenses" lumping together a number of incongrous items. We have given reasons elsewhere explaining why we cannot adopt this classification. Under "Civil Expenditure" the Welby Commission has included:—

1. Interest charges on debt.
2. Collection of Revenue.
3. Cost of Civil Administration.
4. Civil Buildings and Roads.
5. Miscellaneous Civil Expenditure.

We cannot adopt this classification as the group is too heterogenous and the various items are really governed by different, often radically different, principles of public policy. We consider the whole of the debt charges in a separate chapter to give the fuller treatment which the various kinds of the Public Debt of India demand. Commercial services including Post Office, Telegraphs, Railways, and Irrigation are much better discussed in the chapter dealing with Developmental Expenditure, as also Civil Buildings and Roads, Education. Ecclesiastical, Medical and scientific charges included in the above group. Mint, Printing and stationery, too, fall, under our arrangement, under (3) Developmental Expenditure. The other charges under group (b) are discussed in this chapter but under different sub-sections.

† *The Welby Commission (Majority Report) has apparently considered without discrimination the charges for collection along with other charges for General Civil Administration. On this the Minority Report pertinently observes: "The use of the term "Net Revenue" to mean revenue less cost of collection, as is done in our Colleagues' Report, is open to serious objection. Net revenue properly means all money taken from the Taxpayer and acquired by the Government in, commercial undertakings or received in the way of interest on investments, after deducting the amount actually returned to the tax payers e.g. drawbacks or refunds the working expenses and interest on capital involved in the commercial enterprises of the Government, and certain cognate sets-off under the head of interest on money temporarily borrowed. The cost of collecting the revenue includes a large part of the salaries of Government officers and such expenditure should not be withdrawn from a general purview of an increase in expenditure............... Obviously such additional cost of collection if treated as a set off to revenue raised conceals the true rate of increase in the revenue......and would bring about an actual understatement of the increase in the revenue during a given period:

There are other serious objections to deducting the so-called cost of collecting the revenue in order to ascertain the so-called net revenue. (1) The allocation of charges between the cost of collecting the revenue and Civil Administration has varied from time to time. (2) The amounts charged to collection of Revenue are not regarded as correct by some authorities (3) These charges do not include the furlough and the non-effective charges of the revenue service. They are therefore incomplete in themselves and do not represent accurately what they profess to be" (para 42).

They also point out the error underlying the Majority remarks that Opium Revenue is ordinary revenue whereas in fact it is a monopoly profit.

The late Mr. Gokhale insisted again and again on a reform of the account system which would show the net revenue of commercial undertakings of the Government of India, which would exclude the accounts of local funds and similar other changes Some changes were made in the accounts in accordance with his suggestions. See his Speech on the Budget in the Imperial Council and the Financial statement of 1906-1907.

bear to the total revenues could be obtained only if we make a due allowance for the various kinds of taxes and the different principles on which each is based. It would perhaps be better if we postpone this discussion to the chapter relating to the Tax Revenues. Here we must call attention to the following facts :—

(a) The table appended herewith shows the growth in the cost of collection of Revenues and its percentage to the total to revenues.

Year.	Cost of Collection.	Total Tax Revenue.	P. C.
	£	£	
1860-61	3,235,714	31,770,769	10.4 %
1870-71	3,659,800	36,296,698	10 "
1880-81	3,990,005	41,568,041	9.5 "
	Rs.	Rs.	
1890-91	4,82,53,500	48,80,26,290	10. "
	£	£	
1900-01	3,804,547	39,319,167	9 "
1911-12	6,383,531	45,696,778	14 "
1916-17	5,435,454	54,864,241	10 "

This table shows the cost of collection to be averaging 10 % of the total tax revenues. In the figures selected we have included the land revenue, *but excluded Opium and Forests Revenue*, as these can scarcely be called tax revenues proper. From the cost of collection we have also omitted the Refunds and Drawbacks, which are described in the Government of India Accounts as "Direct Demands on Revenues." If these were included the proportion would be very considerably increased. They amount to a million and a half sterling and would raise the proportion to about 15%. As against this the proportion of the Cost of collection of Customs and Excise and Income Tax and other direct taxes in the United Kingdom is relatively insignificant, being less than 3 % on an average. This relatively high cost of collection has been explained on the ground partly, of the large size of the country over which the revenue has to be collected. Besides, the items like the land revenue are collected in small amounts from a very large number of tax-payers, which makes the cost of collcetion relatively high. But even after making all due allowances the fact remains that the tax collecting machinery of the Government of India is relatively much more costly than in England.

UNITED KINGDOM.

Year.	Total Tax Revenues.	Cost of Customs & Inland Revenue.	Percentage of 2 to 3
1890-91	73,577,000	2,643,447	3.5%
1900-01	109,562,000	2,834,000	2.6 "
1911-12	174,642,000	3,919,000	2.2 "
1913-14	146,700,000	4,200,000	2.9 "

We have pointed out already in a previous foot-note the difference of opinion arising in the Welby Commission on this question of grouping the figures representing the actual cost of collection. Leaving aside the question of Opium Revenue, which has now become of second rate importance, we may notice here that the majority of the Welby Commission would exclude—as we have done—the Revenue and expenditure in connection with the Forests Department. Registration fees and the cost of collecting them have been included by us, while Tributes from Native States which cost very little to collect have been excluded. The greatest

difficulty, however, in this connection is the impossibility of ascertaining the total charges in each case so long as the Pensions and other Non-effective charges of each Department are separately paid. There is, thus, room even now for a difference of opinion almost on the same lines that divided the Welby Commission. It would add to the clearness of financial exposition if the total charges in connection with each revenue collecting Department were placed under that department. The following table shows the various items of the cost of collection under each revenue head for 1914-15.

Land Revenue Expenditure.	Rs. Crores.
District Adm. charges ..	2.64
Survey & settlement ..	.79
Directorate ..	.06
District charges ..	1.42
Govt. Estates ..	.11
Collection Commission ..	.24
District and Village officers allowances ..	.59
Other charges ..	·0019
Total ..	5.87

Salt Expenditure.	Rs. Crores.
Establishment ..	.37
Manufacture and Excavation ..	.05
Purchase & Freight ..	.10
Total ..	.53

Excise, Provincial Rates, Customs and Assessed Taxes charges consist of a single item, charges for collection. A good portion of the charges under the Land Revenue is really of a judicial character.

As regards Expenditure on General Administration the item so described in the Accounts of the Government of India includes :—

		1914-15 Rs.
1.	Salaries of Viceroys, Governors Lieut. Governors, Chief Commissioners.	13,26,498
2.	Their staff and household charges.	20,38,814
3.	Durbar Fund (abolished as a separate item since 1912).	———
4.	Executive Councils	14,09,732
5.	Legislative ,,	4,10,005
6.	Military Secretariat (Govt. of India.)	4,01,682
7.	Civil and Public works Secretariat. *	79,86,892

It will be observed from the table given in the Margin that the "General Administration" account contains a number of items which under our clasification ought to have been grouped separately. We may regard

* Details.	£
Legislative Dept.	246,558
Finance Dept.	416,842
Nil Finance.	161,157
Home Dept.	353,342
Education Dept.	277,201
Foreign & Pol.	756,686
Rev. & Agric.	240,306
Com. Indus.	409,951
Translator	7,407
P. W. D.	370,133
Record.	67,398

8.	Tour charges.	7,21,098
9.	Revenue Bd. and Financial Commissioners.	12,74,670
10.	Commissioners.	29,09,654
11.	Inspectors--General.	1,26,126
12.	Land Records Director,	49,579
13.	Civil Accountant office.	46,41,372
14,	Paper Currency office.	8,19,959
15	Presidency Bank Allowance.	3,82,870
16.	Local Fund office.	71,492
17.	Reserve Treasuries,	33,279
18	Administration charges in England * £	4,07,990
	Total £ 20,48,238	3,07,23,570

the General administration charges as synonymous with the total civil salaries and expenses in order to make our discussion more intelligible. Under that interpretation this account shows an inevitable tendency to constant growth, due chiefly to (1) the accession of territory (2) the increase of Population and (3) the multiplication of Departments. Among the chief territorial additions to the Indian Empire may be mentioned Burma in 1886-7 and the N. W. Frontier Province in 1900-01.† The data with regard to the population before the Mutinity are very imperfect but the following table gives a view of Civil Expenditure and population from 1871. ‡

Year.		Population : Br. India. £	Civil Adm. Expenditure £	While population increases. between.		
1871	..	185,163,435	14,318,943	1871-881	by	7 %
1881	..	198,882,817	15,083,036	1881-1891	,,	11 %
1891	..	221,240,836	18,900,464	1891-1900	,,	5 %
1901	..	231,605,940	13,814,848			
1911		244,605,940	21,384,989	1901-1911	.,,	5.5 %
1917	..		24,495,502			
1916						

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* Details.		£
Secretary of State	.. ..	148,090
Under Secretary		
Council &c.	.. .. ..	
Home Establishments	.. ..	
Salaries &c.	.. .. ..	59,452
Allowance to Bank of England	..	60,944
Charges on Industrial Account	..	6,412
Stores	.. .. ..	133,092

† - Indian Public Opinion is apprehensive of a possible decision to add Mesopotamia to the Indian Empire Apart from its Political injustice, the annexation, if decreed, will prove financially a white elephant fo ıat least a decade. Burma and the North Western Frontier Province—2 considerable additions of recent years proved financially a loss to the Indian Exchequer as shown by the following figures for a considerable period.

Total Net Cost of Upper Burma.

Year.		Rs.
1885-6	..	63,10,000
1886-7	..	2,06,87,000
1887-8	..	2,61,83,000
1888-9	..	1,68,28,000
1889-0	..	1,33,10,000
1890-1	..	1,08,53,000
1891-2	..	1,36,11,000
1892-3	..	1,17,61,000
1893-4	..	1,08,28,460
1894-5	..	75,98,750
1895-6	..	78,25,000

in all years of which Rs. 8,65,56,500 were due to Military Expenditure in the New province. ..

North-West Frontier Province.

Year.		Revenue.	Expenditure.	Deficit.
1901-02	..	1,829,547	3,162,022	
1902-03	..	4,159,357	7 620,026	
1903-04	..	4,235,806	8,179,664	
1904-05	..	4,273,815	8,421,059	
1905-06	..	4,243,607	8,958,028	
1906-07	..	4,613,119	8,187,412	
1907-08	..	4,664 988	8,326,610	
1908-09	..	4,626,673	9,475,476	
1909-10	..	4 792,763	943,613	
1910-11	..	4,657,428	10,213,529	
1911-12	..	4,614,420	10,386,177	
1912-13	..	5,116,183	11,803,876	
1913-14	..	5,089,797	12,577,296	
1914-15	..	5,154,912	12,696,201	
Total	..	62,072,415	129,442,289	534,301

or a total loss in 15 years of Rs. 5.34 crores.

Recent disclosures in the Press seem to point to Mesopotamia as a much worse example of extravagance and waste than Burma ever was.

‡ *Figures for Expenditure upto 1891 are in sterling equivalent to tens of rupees and for purposes of* camparison we have taken the figures for 1901 at the new rate of £1-Rs. 15. In 1871 the heads included are somewhat misleading as the classification at that date does not permit a more precise of grouping. The cost of collecting revenue is omitted ; as also all interest charges from this view of Civil Expenditure though in a proper view the whole of the former and a good proportion of the latter ought to be included It may also be observed that while the expenses included in above table are mostly departmental salaries and expenses the corresponding group in the English Budget include a number of items of national Development.

The Civil Expenditure increase between :—

1871-81	by	5 %
1881-91	„	26 %
1891-1901	„	11 %
1901-11	„	60 %
1911-16	„	15 %

Under this heading of General Administration may also be included charges of the Indian office. On the analogy of the charges of the Colonial Office, as well as on grounds of political justice, Indian Public opinion has consistently objected to those charges being included in the Indian Budget. In themselves the total charges of the India office are insignificant; but we may hear point out an objection based on principles of public finance. Such charges, being outside the jurisdiction of the Government of the country on whose account they are incurred, are incapable of being controlled by that Government. And when, as happens in this case, the distant spending body is constitutionally a superior authority to the supreme governing authority within the country, the possibility of control becomes still more remote. Even if the entire expenditure of India were theoretically placed under the control of the representatives of the Indian people, this item of India office charges would frustrate the efforts of the Indian representatives to control them. The only effective as well as logical solution is to place the India office expenditure on the British estimates and the suggestion has in principle been adopted by the Montague-Chelmsford proposals for constitutional reforms in India.†

As under this general heading we propose to review Civil Administrative Expenditure in general, it would not be out of place to say a few words as regards the Civil Service of India. It would be impossible to give a historical sketch, however brief, of the evolution of the system of public service in India under the British Rule. Suffice it here to say that it is the direct descendant of the Covenanted Service organised by Lord Cornwallis for the East India Company in 1793 and systematised by the Indian Civil Service Act of 1861. Appointments in this service, enjoying a practical, if not a legally secured, monopoly of all the superior administrative, executives and judicial posts, were originally made by selection or patronage of the Directors of the East India Company. But since 1854 the competitive principle has been accepted for making first appointments, and at the present time by far the largest proportion of the service is thus recruited on the test

*During the War and after departments and posts have been multiplied with almost criminal recklessness and indifference. On the financial side, therefore, the Reforms will prove a curse to India if the representatives of the people relax one jot of their vigilance or abate one iota of their criticism. It would be deplorable if the new Indian ministers prove too ignorant or incompetent to check and control their highly paid European subordinates. *The latter have now no incentive to economy, or even to carefulness, as not even their esprit de corps* is to be affected.

† See para 294 of the Report on Indian Constitutional Reforms (1918). But India has to bear the cost of the newly created High Commissioner, the Trade Commissioner, and such of the older items as are not included in the British Budget.

of a competitive public examination of a prescribed standard.* The principle of selection by examination once accepted in the premier service, was soon extended to other departments which require specialised training, and which are outside the purview of the Indian Civil Service, and they are now manned by officers the superior ranks of whom are composed of men selected after a public competitive test.† Since the Report of the Public Service Commissioner of 1887 presided over by Sir Ch. Aitchison, the Public Service of India in almost every Department has been organised into 3 Divisions: (1) the Imperial branch consisting of men holding all the highest posts and recruited after a competitive examination commonly held in England; (2) the Provincial branch consisting of men holding appointments specially reserved for that purpose under the authority of the Act 1870, and appointed by Local Governments under rules made for the purpose and (3) the Subordinate branch consisting of low paid appointments chiefly of clerical or lower ministerial grades.

The one most commonly heard complaint against this system of public service is that in the superior branches of the service Indians find a very small share. The following figures show the proportion of Indians (including Statutory Native of India) to Europeans and Anglo-Indians in the Public Service on April 1913 ‡

Total number of posts with Rs. 200 p. m. or over	11,064	
Of these English and Anglo-Indians held	6,491 or	52 %
,, Indians and Anglo-Indians held	4,573 or	48 %

Of posts carrying	Rs. 200-300	English.	12 %	Indians	64 %	A. I.	24 %
,, ,,	300-400	,,	19 %	,,	62 %	,,	19 %
,, ,,	400-500	,,	36 %	,,	49 %	,,	15 %
,, ,,	500-600	,,	58 %	,,	31 %	,,	11 %
,, ,,	600-700	,,	54 %	,,	36 %	,,	10 %
,, ,,	700-800	,,	78 %	,,	14 %	,,	8 %
,, ,,	800-900	,,	73 %	,,	21 %	,,	6 %
,, ,,	900-1000	,,	92 %	,,	4 %	,,	4 %

* The organisation of the Indian Civil Service is governed by the Act of 1861 and 1870, and the orders of the Government of India passed on the recommendations of the Aitchison Commission. The whole subject was again reviewed by a Royal Commission which reported in 1916, but in all departments orders on which have not yet been passed final. The act of 1915 may also be mentioned, as it gave powers to the Secretary of State to dispense with the Examination test in certain specified circumstances.

The C. S. R. define, among other things, the conditions of pay allowances, leave, pensions &c. of the public Servants.

† The specific competitive public examination is observed, or dispensed with in the following departments.

Departments with an Examination.	Departments without an Examination Test.	
1. Finance	1. Agriculture.	11. Mint & Assay Dept.
2. Forest Department	2. Civil Vet.	
3. Indian Civil Service	3. Customs Dept.	12. Bengal Pilot Service.
4. Indian Medical Service	4. Education	13. Post Office.
5. Police	5. Factory and Boiler Inspection Dept.	14. P. W. D
		15. Railway Dept.
	6. Military Finance Dept.	16. Registration Dept.
	7. Geological Survey Dept.	17. Northern Indian Salt Dept.
	8. Land Records Dept.	18. Salt & Excise Dept.
	10. Mines Dept.	19. Survey of India Dept.
		20. Madras Survey Dept.

Apparently there are only 5 Departments with a specific examination test for recruitment of the staffs. They are, however, the most important accounting collectively for the largest number of superior posts (79) per cent of the total. Besides, in other depts. like agricultural, or Civil Vet. Dept. or P. W. D. when a specific test of public examination as a condition precedent to appointment is not insisted on, educational qualifications, are nevertheless prescribed and required before appointments can be made. In a few Departments, the nature of the service renders an examination test impracticable.

‡ The terms. Imperial, Provincial and Subordinate, have no reference to administrative position, but only to differences in ranks and emoluments.

Posts on and under 1,000 Europeans and Anglo-Indians held	52 %
Posts on and under 1,000 Indians and Anglo-Indians held	48 %
Posts on and 1,000 or over Europeans and Anglo-Indians	92 %
Posts on and 1,000 or over Indians and Anglo-Indians held	8 %

The total pay of posts held by	Europeans ..	..	.. Rs.	45,68,985
,, ,, ,,	Anglo-Indians	..	.. ,,	6,20,591
,, ,, ,,	Indians ..	..	.. ,,	16,95,730

The average pay of posts held by	Europeans	..	.. Rs.	933
,, ,, ,,	Anglo-Indians	..	.. ,,	390
,, ,, ,,	Indians ..	..	.. ,,	371

of	414	posts of	Rs.	1,000-1,200	English held	330	Ang. I.	24	Indians	51
,,	264	,,	,,	1,200-1,400	,,	205	,,	28	,,	41
,,	111	,,	,,	1,600-1,800	,,	97	,,	4	,,	10
,,	183	,,	,,	1,800-2,000	,,	173	,,	1	,,	09
,,	230	,,	,,	2,000-2,500	,,	210	,,	4	,,	77
,,	13	,,	,,	2,500-3,000	,,	131	,,		,,	98
,,	33	,,	,,	3,000-3,500	,,	32	,,		,,	..
,,	25	,,	,,	3,500-4,000	,,	25	,,	..	,,	..
,,	39	,,	,,	4,000 & more	,,	39	,		,,	..

In 1887 Posts on less than 1,000 p. m. English & Anglo Indians had 62 %						
In 1887 Posts on more than 1,000 p. m. English and Anglo-Indians had					98 %	2 %
In 1897 Posts on under	,,	,,	,,	,,	58 %	42 %
In 1897 Posts on over	,,	,,	,,	,,	95 %	5 %
In 1913 Posts on under	,,	,,	,,	,,	57 %	43 %
In 1913 Posts on over	,,	,,	,,	,,	93 %	7 %

This inordinately large proportion of an alien element in the Public Service of the Country naturally calls for criticism. It may have had in the past a historical explanation. But to-day it can claim neither political nor economic justification. When the East India Company was struggling for existence or building up its empire one can understand the necessity of employing men of its own race in all responsible or important posts. But under the Government of the British Crown the exclusion of Indians from the Public Service indicates a distrust of the Indian people, which is unwarranted by the professions of belief in Indian loyalty by the highest British statesmen, unjustified by the record of Indians in the last two generations. In the days of the East India Company, and perhaps in the earlier years of direct administration, the relatively backward state of Indians in education, and their want of familiarity with Europeans methods of administration, offered some excuse for their exclusion from superior administrative employment. But this admission does not imply that Indians were lacking in statesmenship, or even administrative talent. Their record in that respect in the Pre British era, and even under the British regime, whenever they had scope and opportunities, is too clear to permit of such an insinuation. With the progress of education, with the growing assimilation of European political philosophy, and with the increasing familiarity with the English administrative system the old explanation for exclusion loses such slight justification as it ever had.

At the present time the case for the greater employment of Indians in the Indian Public Service is not only supported by political expediency, but by economic necessity as well.*

Whenever a European takes the place of an Indian in the Public Service without the clearest necessity being proved, he does not merely displace an Indian he causes an economic loss to the country. The European would require a proportionately higher salary than an Indian, and all the possible saving from that high salary will be taken away from the country when the European retires to his own country. This deprives the Indian Industries to that extent of the necessary capital. All the amounts paid to a European Public Servant of India by way of Pension after his retirement, are also, a dead loss to the country. As was repeatedly urged by the spokesmen of the Indian public opinion before the Welby Commission, the significance of the loss to India is not to be measured merely by the amount actually paid in Pensions or Salaries, but by the disadvantage caused to Indian industrial prosperity for want of such surplus capital. Small in itself, the amount of remittances by active public servants, and of pensions to the retired ones, going to England adds to the wealth of that country at the expense of this; and permits that surplus English wealth to return for re-investment in India, thereby perpetuating the economic slavery of India. It is a common misapprehension in the minds of the Anglo-Indian critics of Indian public opinion to interpret the above sentiment as being hostile to the investment of foreign capital in India. Such investments are unavoidable, and must, in fact, be attracted so long as the undeveloped Indian industries need them. What the Indian public opinion objects to is not the investment of Foreign capital as such; nor even so much to the tribute levied by the capitalist, though that is of a sufficiently crushing character to call forth protest. The objection is directed really towards the exclusion of Indians from posts of directors and managers in industries financed by foreign capital. Under the present arrangements, moreover, such industries are by no means certain of being operated in the national Indian interest. And above all, the treatment of labour engaged in such industries, as shown by more than one historic dispute between the Tea-planters and their coolies in Assam, is a disgrace to any civilised country. We suffered silently or ineffectually because the governing class had the mystic sympathy of the race with the planters, and no such sympathy with their labourers. The parallel of Japan and the U. S. A., borrowing foreign capital to develope local industries, does not hold; for while in Japan and in America the capitalist cannot expect anything beyond the legitimate economic return to capital, which must be employed under the control of the State by the citizens of that State in the National interest, in India the foreign capitalist, investing in India, is considered

* "The point of view," says Mr. Justice Abdur Rahim in his dissenting minute to the Report of the Public Services Commission, "from which the majority of the Commissioners and myself have approached the question of employment of Indians are substantially different. The question they have asked themselves is what are the means for extending the employment of Indians." (See paragraphs 35, 36)." But the proper stand-point, which alone in my opinion furnishes a satisfactory basis to work upon, is that the importation of officials from Europe should be limited to cases of clear necessity and the question therefore, to be asked is in which services and to what extent should appointments be made from England."

in the light of a philanthrophist whom it would not do to displease, on whom, therefore, the State control is shadowy, and to whom is left unquestioned the supreme control and management of the industries. *

While the old causes which necessiatated the employment of Europeans have weakened or disappeared, new forces have developed making it eminent injudicious to employ Europeans. They have no knowledge of the habits and sentiments, of the language and literature, of the religion and philosophy of the people they are set to govern in India ;† while an Indian—particularly an educated Indian has an instinctive superiority over a European in all these respects. The want of sympathy in Indian Administration, noticed and complained of by even the King-Emperor himself, is all the more accentuated by the growth in recent years of a keen sentiment of Indian Nationalism. At one time the European Official was expected —not without reason to be an impartial judge between the conflicting claims of Hindus and Moslems. But the new nationalism has weakened the old racial animosity in India. The perception of a common political servitude has reconciled the Hindu to the Moslem and their co-operation and mutual sympathy assured by this greatest of all bonds. The English official has lost his old claim to impartiality, if he really ever had any. He is becoming a party in a racial struggle, a representative of a greedy minority with vested interests, all the more resentful of any attack on his privileges, because he cannot help believing they are unjust. And, finally the class of Englishmen which now furnishes the bulk of the Indian Public Servants is a class of failures. The obvious disadvantages of service in India would not tempt men from England so long as they have any chance of reasonable employment at Home, or in the colonies with their kindred. Competitive examinations for Public Service have too many advantages not to allow us to notice this one particular disadvantage ; that under the competitive system India has obtained a decidedly lower class of Public Servant than was the case under the East India Company, or than is the case under a similar system in England to-day. The modern English official, whether soured by the Indian curry or climate, is unquestionably more greedy, more short-tempered, more hostile to Indians than his predecessor of 50 years ago, and much less able or intelligent than his confrere not only in European countries, but also in India. Wanting in ability, intelligence, impartiality or sympathy, there is now absolutely no case for any employment of Europeans in the superior administrative posts of India.

The question may, indeed, be raised at this stage as to why, if Indians have no such inferiority compared to Europeans, they should not have obtained admission

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* On this point see the cross examination of Mr. G. K. Gokhale before the Welby Commission, particularly by Sir J. Peile.

† Attempts are made by Government to remedy the defect of a want of knowledge of the local language in their superior officers, by offering tempting prizes to them for acquiring a knowledge of Indian languages. The degree of proficiency attained is by no means in proportion to the amount of prizes offered, which range from Rs. 500 to 5,000 for each language mastered. As a rule the European's command of an Indian language would make an Indian fourth form boy blush for shame if he could not show a better extent of acquaintance with the English language and literature. Besides the knowledge of the official is transitory, the knowledge of the Indian student permanent. The former is content with a few slang words to swear at his servants or subordinates ; the latter is a type which frequently develops into a Surendra Nath Bannerji, a Ravindranath Tagore or a Sarojini Naidu.

to the Public Service at least in those branches where appointments are conditional upon a satisfactory examination test. The answer is that the place where the examinations are held, and the conditions of residence and study, throw an insurmountable obstacle in the way of the majority of Indians. If Indians are to be admitted in the Public Service, the examinations must be held in India or appointments made directly in India. The real explanation is that the Government of India have not shown any anxiety to secure and safeguard the just claims of Indians in respect of the Public Service in India. They have deliberately formulated, or patiently submitted to conditions which inevitably, inexorably, result in the practical exclusion of Indians.

Another complaint of a financial kind against the Civil Administrative Expenditure of India is that the Indian Government pays disproportionately high salaries for very ordinary services. With the possible exception of Judicial Offices all other civil offices are better paid in India than even in England, where the scale of official salaries compares most favourably with the corresponding offices in other European countries.* Considering the wealth of India as a nation the salaries cannot but appear extravagantly high. There was indeed some justification to fix these salaries relatively high when the Indian Civil Service was originally instituted. Conditions of life in India, when the English Civilian had to live away from his kith and kin, among a people entirely unknown and unintelligible to him, were so hard as to demand a reasonable compensation, not so much because of the ardousness of the work demanded of him but because of the privations suffered by him. There was also the other—and not less important—motive in fixing the salaries at a relatively high figures: the desire to place the public servant beyond want and temptation. The scandals of the company's public servants were too recent not to influence Cornwallis and his advisers in fixing the salaries. At the present time however these motives are insignificant or non-existent. The hardships of an Indian career have been smoothed away by the development of rapid means of communications, frequent opportunities of leave, and the growing westernisation in outward habits of the advanced sections of the Indian people. It is of course still true that the Englishman remains an outsider in Indian society—as much by the social peculiarities of the Indian people as by the race arrogance of the Englishman himself. But that is no longer a factor which ought to be specially compensated for. And as regards the other motive of securing honesty in public service English men can no longer claim a monopoly of a scrupulous honesty. Indians have learnt their lesson. On the contrary rumours of a want of decency among the superior English Officers are now not unknown or rare. The Indian Political service, consisting of political officers in the Native States, leaves much to be desired in rectitude

* The Table of principal salaries given later on may be compared to the following illustrations of salaries to high officers. The President of the United States gets about £15,000; the Prime Minister of England £5,000 the President of France £4,000 per annum The Lord Chief Justice of England gets £8,000 and the Lord High Chancellor £10,000 p. a. while the Lord Lieutenant of Ireland has £ 20,000. The highest judicial officers in France and Germany get less than £2,000 p.a.

of motives and propriety of methods. It may be that were a very searching inquiry instituted in the fortunes of retiring Indian Political Residents the owners may not be able to account for all their wealth on a satisfactory basis.* The sale of titles, the grant of industrial concessions, and of contracts in the Public works or Military supply Department†, to mention only a few of the cases about which rumour has been busy of late, have been known before now to offer temptations to otherwise able men to remain in relatively subordinate but more lucrative posts. In any case the plea can no longer be maintained that the salaries paid by the government of India are nothing but a reasonable reward at market rates for the services rendered. The legend of the unrivalled efficiency of the Indian Civil Service held the field so long as the members of that service were the only vocal people to advertise their own "Corps d'Elite." If we compare the efficiency of the Indian Civil Service with that of the other great bureaucracy in the world—the Prussian Civil service—we can not but admit that for sheer efficiency in work for mere administrative results the Indian service would be nowhere. And yet the scale of salary in the Prussian service was much lower. Besides, for the kind of work that the average Indian Civilian turns out the average educated Indian would be equally competent. Except in the highest posts much of the work is of a routine character—at once the bane and the salvation of a common place civilian; and it would be taxing too much the credulity of an intelligent public to say that such a kind of mechanical work could not be performed as well by two men of similar education—one of whom is white and the other coloured. Skin has no relation to efficiency, much less to intellectual eminence. Work of precisely similar character is done by Indians in admittedly the best governed Native states at relatively much cheaper rates.

As is often the case in top-heavy structures the high salaries at the top are purchased at the cost of miserably low salaries in the clerical branch of the

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* The growth of direct intercourse of the Indian princes with the highest governing authorities is steadily reducing this grave scandal. But the fact that in cases of dispiutes between the Indian States and the British Government in this country, one of the party is also the judge without appeal ,combined with the personal infirmities of the princes renders the political officer still a very powerful obstacle in the way of honest administration in the States. The Indian political service will remain incapable of redemption so long as the Indjan States are not admitted to the rights commonly accorded to independent states by the International Law. We are not here concerned with the purely political aspect of the case, though it is generally belived that the British Government in India deliberately design to keep these specimens of native rule as unsympathetic and unprogressive as they can, and consequently select their political officers from among men not above doing a dirty job.

† The scandals of War profiteering by persons in Government service are simply incredible. A rigorous investigation into the present holdings of every one connected with the Military Supply and Transport Department, the various controlling agencies, the ports and Customs Offices, the Railways etc. would bring to light events compared to which the old East India scandals would be insignificant. The only difference is that at the present the Indian willingly pays the European jobber in the hope of mulcting further his Indian brother. The author knows several instances, of which two choice ones may here be appended. In the first instance a military contractor sold several thousand tins of ghee for the use of the army at Quetta, at Rs. 35 per tin, and the authorities concerned passed the ghee as satisfactory. At Quetta the officer commanding discovered that the ghee in each tin was about a couple of inches deep, and below was rotten fat in each case. The tins were then returned as unfit for use. The contractor who had originally supplied the ghee was paid, but he or his colleague got a tip andre-purchased the ghee at Rs.10 a tin, selling it to another at Rs. 13 a tin; and the latter sold to the Indian Army in Mesopotamia at Rs. 20 a tin, which was eventually consumed. On each thousand tins supplied the net result was that the Tax-Payer lost Rs. 35.000 in the first instance, not to mention the transport charges from Karachi to Quetta and back; and again Rs. 10.000. without counting the loss to the Indian soldiers from the consumption of such ghee, which was pronounced unfit for the use of European troops at Quetta. For obvious reasons the names of the parties in this transaction, or other particulars which might identify them. cannot be given. but such instances are unhappily only too common. It is, also, an open secret that Engineering workshops. having frequent contracts from public Departments. reserve regularly a substantial sum. used in such illegal gratifications given to public officers and shown in the Balance Sheet. wherever necessary. under the least suspected headings. It is sad to note that such Indian public men as areappointed de novo to the highest executive offices are unable to rise above the temptation to turn their official position to account indirectly through their connection with trade, kept up under the thinnest disguise.

Public service. Labour of this description in Government departments has never had its claims seriously or sympathetically considered. They lack organisation; they are accustomed to a wretchedly low standard of life; they are wanting in ambition. Consequently every Royal Commission* that has been appointed to investigate into the grievances of the public services—every reform that has been suggested or carried out in consequence has had reference to the superior posts only. The most urgent reform, therefore, next to the abolition of the colour disabilities in the Indian Public service, is the improvement of salaries of the subordinate officers in Government departments at the present time drawing a pay varying from Rs. 25 a month to Rs. 200. Such a suggestion runs a great risk of being shelved, of course with every show of sympathy, on the perennial pretext of an insufficiency of funds. Curiously enough, funds have always been forth coming whenever complaints have been made about the inadequacy of the higher salaries. Witness for example the Exchange Compensation Allowance granted in the nineties of the last century in spite of a chronic insufficiency. The recent increase in the pay of the British soldier in India added nearly a million sterling annually to the Budget of India without a murmer of protest from the Indian Finance Minister; while a strike of the postmen in the City of Bombay, living under conditions of the most notorious rise in rents and prices, failed most ignominiously because if their demands had been granted in to the postal Budget in Bombay would have been increased by about 5,000 rupees a month.† That our suggestion may not be laughed at or shelved as impracticable, we append below a scheme‡ under which a graduated reduction of the higher salaries would afford all the economics desired

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* A—According to the Public service commission report (1916) there were in 1913:—

		Rs.			monthly save.
1314	posts with salaries between	500/600	reduce	10 %	65,700
544	,,	600/700	,,	,,	32,640
625	,,	700/800	,,	,,	46,875
419	,,	800/900	,,	,,	33,520
304	,,	900/1000	,,	,,	27,360
414	,,	1000/1200	,,	20 %	62,100
364	,,	1200/1400	,,	,,	72,800
242	,,	1400/1600	,,	,,	60,500
111	,,	1600/1800	,,	,,	33,300
183	,,	1800/2000	,,	,,	64,050
230	,,	2000/2500	,,	25 %	103,500
137	,,	2500/3000	,	,,	105,500
35	,,	3000/3500	,,	33 %	33,000
25	,,	3500/4000	,,	40 %	35,000
39	,,	4000 & more	,,	50 %	70,000
		Total saving per month. Rs.			8,45,845

This saving does not include the saving from the higher offices of the Viceroy and Provincial Governors, contract Allowances &c;. nor does it take any account of the possible saving from the travelling allowances and other contingent expenses. It also does not take any account of the increase in the permanent civil Expenditure since 1913-14, which as noted below, is about 55% Acting allowances are all omitted in the above calculation. It would thus be a most moderate estimate to put down the possible annual saving in salary reduction at over Rs. 3,00,00,000 more than ample for the increase in the lower salaries suggested above.

† The Public service commission (1916) did not report any all round increase of salaries but they suggest abolition of grade system and its replacement by the fixed annual increment conditional upon efficiency in service. They also suggest a total additional charge of Rs. 2.263 lakhs.

‡ The same fate met the Postal strike of 1920 in Bombay. where if the demands had been granted in full Rs. 20.000 a month would have been added to the Budget at the most. Against the authorities making this doubtful saving the public suffered severe monetary losses. not to mention in convenience to business. which is immeasurable. The postal committee had, however, recommended considerable increases in the pay of the lower postal staff, which the Government of India have accepted almost in total. The claim for differential treatment by the Bombay postmen was justified on the grounds of the peculiarly onerous conditions of life in Bombay. But Government having remained obdurate in the matter, the strike failed abjectly after lasting 140 days. To the men it meant a disgraceful surrender; but it may be doubted if the Government has not obtained a Pyrrhic victory. The methods of strike-breaking adopted in this case by such an important Public Department give rise to problems which cannot be taken as finally settled merely because of the theorItic triumph of the Government. The questions will have to be solved in near future as to whether Labour in public departments is entitled to expect a standard contract of service which will offer a model for conditions of employment, and whether Government as an employer is entitled, in the name of public utility and necessity to resort to every measure it can think of for strike-breaking.

for making an increase in the pay of the lower paid members of the public service. We proceed in that scheme on the general principle that no official salary, with the exception of the Viceroy, Governors, Chief Judges, and Commander-in-Chief, should exceed Rs. 50,000 a year; that all salaries between Rs. 200 and 500 a month should be left untouched; while salaries over five hundred a month should be taxed or reduced at a graduated rate of from 10% to 50% as the amount of the salary increaseses. The salary of the Viceroy should be reduced to £10,000 or Rs. 1,50,000 a year; of the Governors to £7,500 or Rs. 80,000 to 1,00,000 a year; of the Chief Justices to Rs.50,000 to 60,000 a year; and of the Commander-in-Chief to Rs. 50,000 a year. The household and other allowances now granted to the Viceroy and Governors are excessive and ought to be considerably reduced; while the great scandal of Travelling Allowances to high officers, with such a large amount of public Railways belonging to the state, ought to be finally ended by a system of passes on Railways. The total saving thus made would exceed Rs. 1,50,00,000 a year a sum more than enough to add 100 per cent. to salaries below Rs. 50 a month, and 50% to 75% to salaries between 100 and 200 amonth.

A TABLE OF THE CHIEF INDIAN SALARIES.

Office.	Annual Pay. Rs.	Office.	Annual Pay. Rs.
Viceroy	2,50,800	Director, Geological survy.	21,000
Private Secy. to Vicy. ..	24,000	2 Dy. Secy. Govt. of India	27,000
Military ,, ,, ..	18,000	,, ,, ,, ..	24,000
Surgeon	14,000	Supdt. of Port Blair ..	30/36,000
Commander-in-Chief ..	1,00,000	Chief Commr. of Delhi ..	36,000
,, Mill. Secy. .	18,000	Director, Criminal Intelligence	36,000
6 Members Vocy. Council (each	80,000	Inspector Genl. Forests ..	31,800
3 Secy. Govt. of India ..	48,000	Survey Genl.	36,000
6 ,, ,, ,, ..	42,000	Chief Inspec. Mines ..	21/24,800
Educational Commr. ..	30/35,000	Director Genl. Medical service	36,000
Comp-Auditor Genl. ..	54,000	12 Magistrates and Collectors 1st Grade ..	27,000
Controller of Cur. ..	36/42,000	13 Mag. and Collars 2nd Grade	21,000
2 Acct. Genl.	33,000	14 Ditto 3rd Grade ..	18,000
3 ,, ,, (Class II,	30,000	17 Jt. Mag. & Dy. Colrs. 1st Grade	10,000
4 ,, ,, ,, III.	27,000	17 Ditto 2nd Grade..	8,400
Salt Commr.	30,000	Asst. Mag. & Colrs. 4,800	6,000
Director Genl. of Posts and Telegraphs	42/48,000	3 Dist. & Sessions Judges 1st Grade	36,000
Post Master General ..	30,000	13 Ditto 2nd Grade ..	30,000
2 ,, ,, ..	27,000		
3 ,, ,, ..	24,000		
4 ,, ,, ..	21,000		

Office.	Annual Pay.
	Rs.
21 Ditto 3rd Grade ..	24,000
1 Chief Judge Presidency city of small causes..	24/30,000
4 Judges	12/13,600
15,600 and	16,800
1 Advocate General ..	48,000
1 Solicitor to Govt. ..	60,000
1 Registrar High Court ..	20,400
1 Insptr. Genl. Police ..	30/36,000
1 Directr. of Public Instructions	24/30,000
Sanitary Commr.	24/30,000
Director Genl. Archelogy	20,400
Adm. Genl. Bengal. ..	24,000
Director Genl. Commercial Int.	24,000
,, Ind. Ober. ..	18/24,000
Controller Stationery ..	18,27,000
3 Presidency Governors ..	1,20,000
3 Private Secy. to ,, ..	18,000
3 Surgeons	12,000
3 Military Secy.	12,00
Bishop Calcutta	45,977
,, Bombay	25,000
,, Madras	25,000
Chief Justice Bengal ..	72,000
Other chief justice (3 ..	60,000
33 Puisne Judges High Courts ..	48,000
2 Chief J. Chief Courts ..	48,000
8 Judges Chief courts ..	42,000
6 Political Residents 1 class	48,000
9 Political Rests. II class	33,000
Pol. Officers on time scale 5,400	28,800

Bengal.

3 Members of Council ..	64,000
1 Member Board of Rev...	45,000
5 Commrs. of Divisions ..	35,000
1 Chief Secy. to Govt. ..	45,000
3 Secy. to Govt.	33,000

Office.	Annual Pay.
	Rs.
3 Under Secy. to Govt. ..	12,000
1 Excise Commr.	21,000
1 Chairman Corporation of Calcutta	30,000
1 Dy. Ditto	12/18,000
1 Collector of customs ..	30,000

Assam.

1 Chief Commr.	56,000
2 Commrs.	33,000
2 Sec. to Chief Commr. ..	18/21,000
6 Dy. Commr. 1st Grade	27,000
7 ,, 2nd Grade ..	21,600
7 ,, 3rd Grade ..	18,000
4 Asst. Commrs. 1st ,,	10,800
4 ,, ,, 2nd ,, ..	8,000
,, ,, 3rd. ,, ..	5,400/6,000
2 Under Sec. to Chief Comr.	12,000
1 Dist. & Sessions Judge .	30,000
1 Insp. Genl. Police ..	27,000
1 Dir. of Public Instructions	15/18,000
1 Dir. of Land Records & Agriculture	18,000
1 Excise Commissioner ..	18,000

United Provinces of Agra and Oudh.

1 Lt. Governor	1,00,000
1 Chief Secy. to Govt. ..	36,000
2 Members of Bd. of Revenue	42,000
2 Secy. to Govt.	20/22,000
1 Secy. to Bd. of Rev. ..	22,000
3 Under-Secy. to Govt. ..	12,000
1 Privy. Secy. to H. E. the Governor	18,000
1 Director of Agriculture..	27,000
1 ,, of Land Record	18,000
1 ,, Secy. of Bd. of Rev.	18,000

Behar & Orissa.

1 Lt. Governor	1,00,000
3 Members of Executive Council	60,000

Office.	Annual Pay.
	Rs.
1 Member of the Bd. of Revenue	42;000
1 Chief Secy to Govr. ..	36,000
2 Sec. ,, ...	27,000
3 Under Sec. ,, ..	12,000
5 Commrs. ,, ...	35,000
10 Magistrates and Collectors 1st Grade ..	27.000
11 Ditto 2nd Grade ..	21,600
12 ,, 3rd Grade	18.000
11 Jt. Mag. & Dy. Colrs. 1st Grade	10.300
10 Ditto 2nd Grade ..	8,400
Asst Mag. and Cols	4.800/600,0
2 Dist. and Sessions Judges 1st Grade	36,000
5 Ditto 2nd Grade ..	30,000
6 Ditto 3rd Grade ..	24,000
1 Commr. of Excise salt ..	17.280
1 Director of Land Bds. of Surveys	31,600
1 Director of Agriculture ..	18,000
1 Insp. Genl. Police ..	30,36,000
1 Dir. of Pub. Instns. ..	24,000

Punjab.

1 Lt. Governor	1,00,000
1 Chief Secy. to Govt. ..	36,000
2 Secy. to Govt. 18,000	21,000
2 Under Secy. to Govt. ..	12,000
1 Under Secy. Police Dept. and Insp. Genl. of Police	30,000
1 Under Secy. Educational Depart.	24,000
2 Fin. Commrs.	42,000
2 Secy. to Fin. Commissioners 10,800 and	8,400
5 Commissioners	33,000
14 Dy. Commrs. 1st Grade.	27,000
14 ,, 2nd ,,	21,600
14 ,, 3rd ,,	18,000
14 Asst. Commrs. 1st ,, .	10.800
14 ,, 2nd.,	8,400
39 ,, 3rd.,	6,000
2 Divisional Judges 1st Grd.	33,000
4 ,, 2nd Grade	30,000
6 ,, 3rd ..	27,000
10 ,, 4th .	21,600
10 Dist Judges	18.600
1 Sub Judge and Judge Small Cause Court Simla	15.000
1 Registrar of the Court ..	15,000
1 Legal Remembrancer ..	24,000
1 Insp. Genl. of Police ..	24,000
1 Director of Public Instructions	24,000

Burma.

1 Lt. Governor	1,00,000
2 Chief Secy. to Govt. ..	36.000
2 Secretaries	21,600
2 Under Secretaries ..	6,000
1 Ssst. Secretary	6,000
1 Financial Commr. ..	42,000
9 Commrs. of divisions ..	35.000
1 Commr. for Kumsson ..	30,000
1 Opium Agent	30/36,000
19 Mag. & Colrs. 1st Gr.	27,000
17 ,, 2nd Gr.	22,000
4 Dy. Commrs. 1st Grd. ..	22,000
16 ,, o 2nd Grd.	20,000
15 Jt. Mag. 1st Grade ..	12,000
8 Asst. Commrs. 1st Grade	9,600
21 Jt. Mag. & Asst. Commrs 2nd Grade	8,400
Asst. do. do.	4,800/6,000
3 Dy. Commrs. Kumaon .	12,18,000
1 City Mag. Lucknow ..	12.000
1 Supdt. Dehra Dun ..	18,000
1 Judicial Commr. ..	42,000
2 Additional Jud. Commr.	40,000

Office.	Annual Pay. Rs.
2 Dist & Sessions Judges 1st Grade	36,000
7 ,, 2nd Grade ..	30,000
7 ,, 3rd Grade ..	27,000
10 ,, 4th Grade ..	22,000
5 ,, 5th Grade ..	20,000
1 Registrar High Court ..	19,200
1 Insp. Genl. of Police ..	30/36,000
1 Dir. of Public Instns. ..	24,000
8 District Judges	18,000
11 Registrar Chief Court .	8 400

Lower Burma.

1 Govt. Advocate ..18/	21,000

Central Provinces.

1 Chief Commissioner ..	62,000
1 Financial Commr. ..	42,000
5 Commissioners of Divisions	33,000
13 Dy. Commrs. 1st Class	27,000
13 ,, 2nd ,,	21,600
14 ,, 3rd ,,	18,000
10 Asst. Commrs. 1st ,,	10,800
10 ,, 2nd ,,	8,400
3rd ,,	4,800/6,000
1 Judicial Commr. ..	42,000
2 Additional Jud. Commrs.	36,000
4 Divisional and Ses. Judges 14,800/	18,240
2 Dist. & Ses. Judges	14,800/20,400
1 Insp. Genl. of Police ..	27/33,000
1 Director of Public Instns.	18/24,000

Madras.

2 Members of Council ..	64,000
1 First Member Bd. of Rev.	45,000
1 First Member Bd. of Rev.	45,000
1 Second ,, ,, ..	42,000
1 Third ,, ,, ..	36,000
1 Fourth ,, ,, ..	36,000
1 Chief Sect. to Govt. ..	45,000
1 Rev. Secy. to Govt. ..	36,000
1 Secy. to Govt.	30,000

Office.	Annual Pay. Rs.
1 Private Secy. to Governor	18,000
2 Under Secy. to Govt. ..	12,000
1 Secy. to Commrs. of Land Rev. 16/	21,600
1 Secy. to Commrs. of Salt 18/	21,600
22 Dist. & Ses. Judges ..24/	36,000
1 Registrar High Court ..18/	21,600
1 Ad. General	21,600
1 Govt. Solicitor	13,200
1 Chief Judge Small C. Ct.	24,000
1 Commr. of Coorg. 21,600/	24,000
1 Resident in Travancore and Cochin	33,600
1 Settlement Commr. and Dir. of Land Rev. ..	33,000
1 Dy. Dir. of Land Records	19,000
1 Secy. to Fin. Commr. ..	12,000
1 Dir. of Agriculture ..	21,600
8 Commrs. of Divisions ..	33,000
12 Dy. Commrs. 1st Grade	27,000
14 ,, 2nd ,,	21,600
15 ,, 3rd ,,	18,000
12 Asst. Commrs 1st ,,	12,000
13 ,, 2nd ,,	8,400
10 ,, 3rd ,,	7,200
52 ,, 4th ,,	5,400/6,000
1 Judicial Commr. ..	42,000
2 Div. Judges 1st Grade ..	33,000
1 ,, 2nd ,, ..	30,000
2 ,, 3rd ,, ..	27,000
2 ,, 4th ,, ..	21,600
3 Members of Council ..	64,000
1 Chief Secy. to Govt. ..	45,000
1 Secy to Govt.	37,500
1 Secy to Govt.	30,000
1 Private Secy. to Governor	16,000
2 Under Secy. to Govt. ..	15,000
1 Insp. Genl. of Prisons	21,600/24,000
1 Insp. Genl. of Police ..	30/36,000
4 Commes. of Divisions ..	36/42,000
1 Commr. in Sind ..	45,000
1 Municipal Commr. Bombay	36,000

Office.	Annual Pay. Rs.
13 Senior Collectors ..	27,900
15 Junior ,, ..	21,600
9 Asst. Collectors 1st Grade	14,000
17 ,, 2nd Grade	10,800
18 ,, 3rd Grade	8,400
,, 4th Grade	4,800/6,000
1 Collector in Sind ..	21,600
1 Insp. Genl. of Police ..30/	36,000
2 Collectors 1st Grade ..	30,000
14 ,, 2nd ,, ..	27,000
1 President Corporation Madras	20,820
6 Collectors 3rd Grade ..	21,600
17 Sub.-Collectors and Jt. Magistrate 1st Grade	14,400
16 Ditto 2nd Grade ..	10,800
16 Ditto 3rd Grade ..	8,400
Asst. Collrs. & Magistrates	4800/6,000
1 Dir. of Public Instn. ..	24/30,000
1 Asst. Commr. in Sind ...	13,200
1 Judicial Commr. in Sind	42,000
2 Additional Jud. Commrs. in Sind	36,000

Office.	Annual Pay. Rs.
3 Dist. & Ses. Judges 1 Gr.	30,000
6 Dist. ,, 2nd Gr.	27,000
11 ,, ,, 3rd Gr.	21,600
Prothonotary & Registrar High Court ..	20,400/24,000
1 Administrator Genl. and Official Trustee ..21/	30,000
1 Registrar High Court ..	20,400
1 Chief Judge Small C. Ct.	24,000
1 Remembrancer of Legal affairs.	30,000
1 Govt. Solicitor	30,000
1 Advocate General ..	24,000
1 Agent to the Governor in Kathiawar	36,000
1 Resdt. and Senior Political Agent	27,000
27 Political Officers on time scale pay .. .. 5,400/10,200&11,400/	23,400
1 Director of Public Instruction	24/30,000

The last explanation that ought to be noticed as regards the cost of Civil Administration in India is the multiplication of departments. *Apart from the great crop of departments and controllers demanded by the exigencies of the Great War, Lord Curzson's administration was conspicuous for addition to the number of public departments e.g. the creation of the Commerce and Industry Department of the Government of India, the institution of the Railway Board &c. His also was the period for a wide spread revision of pay of the superior officers if not of the whole superior staff of many a department under the excuse of the need for increased efficiency. We have already examined the degree to which the Indian Civil service can maintain this claim to efficiency relatively to the other great bureaucracies of the world; and here we need only add that apart from the advertising of the members of that service itself, the claim to efficiency can be only sustained if a comparison is instituted with the corrupt systems of Public service in European countries in the eighteenth century, or with the disgraceful system of

* We have already noticed the fact that the R. forms are from this point of view a costly privilege and may here instance only the addition to the Executive Councils in the Presidencies of 2 extra members with a proportionate corresponding increase in the Secretariat, the addition of paid Presidents for the Legislative Councils and the increase of Travelling allowances in consequence of the enlarged legislatures. In 1913-14 Salaries and expenses of Civil Departments were 27 crores. In 1920-21 they are estimated at 42 crores, or an increase in 7 years of 55 per cent.

public service in some of the Native States of India to-day, which offer a convenient foil to show off the excellence of the British Administration such as it is; and for that purpose perhaps this otherwise intolerable nuisance is maintained by the guarantee of the British armed force.

XX.—POLITICAL CHARGES OF THE GOVERNMENT OF INDIA.

The political charges of the Government of India in the official Accounts include the following items:—

	(1901-2) (Lacs). Rs.	1905-6	1910-1	1914-15
Political Agents	38.00	45.77	46.83	49.89
Diplomatic Consular charges ..	*	..	8.83	12.34
N. W. Frontier	17.58	34.91	37.17	36.74
Tibet Frontier	..	1.39	2.49	2.79
Political Subsidies	5.99	38.27	49.49	22.06
Entertainment of Chiefs	1.20	2.65	3.90	3.60
Durbar presents and allowances ..	1.15	1.19	1.62	1.74
Refuges and state prisoners	7.34	5.75	5.31	4.70
Special Political charges	7.37	5.95	.49	13.73
Imperial service troops	..	..	3.58	3.02
Lighting and buoying Gulf Persia .				1.68
Other charges	5.74	6.42	6.39	6.73 †
Charges in England	£ 24,742	£ 5,534	£ 5,016	£ 23,975
Total Political charges	£ 587,491	£ 943,440	£ 1,095,470	£ 1,123,385

But according to the classification adopted by us these charges do not exhaust the total of the items which may fairly be described as political. Among other items we would add to this heading the Political Pensions and Allowances granted by the Government of India and the allowances under treaties to some Native states. The Legislative Council charges should also be included. On the other hand the income from Tributes being purely of a political character should be deducted before we can arrive at the net political expenditure of the Government of India.

* The figures relating to Diplomatic and Consular service were before 1910 included in the charge of Political Agency.

† The figures are in lacs of rupees except the two bottom items.

Year.	Political Exp.	Legis.	Pol. Pensions*	Durbar Charges†	Tributes	Net charges.
1899-0	£ 721,836	£ 9,858	£ 277,010	£ 13,167	£ 615,028	406,848
1900-1	537,491	10,672	279,314	13,870	577,823	263,525
1901-2	687,074	9,998	264,371	13,929	503,545	391,827
1902-3	819,466	12,673	270,605	15,453	613,715	504,682
1903-4	702,570	11,656	257,469	12,800	609,086	375,409
1904-5	790,339	10,425	248,381	12,933	633,844	428,234
1905-6	943,440	11,536	246,666	14,463	597,430	518,875
1906-7	1,060,034	11,509	235,646	13,785	600,986	665,888
1907-8	796,105	12,016	248,944	15,835	584,020	488,430
1908-9	1,007,512	12,601	242,755	16,637	589,636	690,579
1909-0	875,127	13,705	233,586	14,917	588,307	549,008
1910-1	1,095,470	13,921	236,006	17,535	607,447	755,485
1911-2	968,158	14,442	227,061	14,093	595,005	628,749
1912-3	1,005,923	15,038	219,409	..	623,542	616,818
1913-4	1,159,190	15,137	220,720	..	616,851	778,166
1914-5	1,123,335	16,437	208,621	..	609,827	738,666
1915-6	1,168,027	8,334	219,075	..	609,128	786,308
1916-7	1,282,443	10,297	207,963	..	612,429	888,274
1917-8	2,092,269	11,459	200,273	..	597,670	1,706,331
1918-19	2,653,[illegible]69	12,592	185,224	..	594,354	2,257,331
B.E. 1919-20	2,148,100	13,000	209,500	..	626,000	1,744,700
R.E. 1920-21	1,906,400	13,000	206,000	..	616,309	1,509,600

Owing to the splitting up of these small charges, a proper study of the Political expenditure of the Government of India becomes difficult. We have already referred to the plan of the Welby Commission which discussed Political charges under the general heading of Defence. But the items enumerated above are essentially of a Civil administrative nature, particularly the largest item of Indian Political Agency charges. This is not so much for maintaining International Relations with the Indians states (if one may so describe the relations subsisting in India) as for keeping up to a certain degree of efficiency in the Administration of portions of India not directly under British rule.

The Political agents in the Indian States are not Ambassadors but Advisers. The Government of India has no anxiety for maintaining favourable economic or political doctrines in the Native States, since the

* The Territorial and Political Pensions include the allowances to the dispossessed Oudh Family in U. P. and the Nizamut family in Bengal, Carnatic and Tanjore stipends in Madras, Sind Pensions in Bombay and miscellaneous Pensions and charitable allowances continued by the present British Government as a heritage from the indigenous Governments they have replaced. As relatively lower pensions are regranted to heirs of a deceased original pensioner this is a diminishing charge.

† The Durbar charges in this table are taken from the accounts of the Government of India. Apparently they are not quite the same as the Coronation Durbar charges of 1902-03 or that of 1911-12.

most considerable of them have no economic independence in internal matters whereby the British interests might conceivably be endangered. The standard of Administrative efficiency or excellence is vague; but such as it is the Sovereign power expects the Feudatories to conform to it. As there can be no departure in any important question without a previous reference to, and perhaps approval of, the British Indian Government, the analogy of Diplomatic Relations with the independent states of the civilised world breaks down. On the other hand if we look to the Tributes paid by the States to the Paramount Government they seem to be more akin to military subsidies as a sort of an insurance against external aggression and internal Revolution.* We cannot compare the present day Indian Political Tributes either to military exactions by a conqueror, or to the Matricular contributions paid by the constituent States of the German Empire to the Imperial Government. The tributes do not meet the whole of the Indian Political Expenditure; but for that reason we cannot describe the total political expenditure as a tax on British India. In the event of the Federal idea being realised; in the event of the United states of India becoming an accomplished fact, it is conceivable that this branch of public revenue and expenditure may disappear altogether to be replaced by proportional contributions from the constituent states and provinces for the maintenance of the Central Government. † As it is we must regard both the revenue and the expenditure on this head as in a class by itself which it would be impossible to judge by any known standards of public Finance.

The items of Political Expenditure; such as Durbar charges, entertainment of Rulers and envoys &c. are to a large extent the result of a prevailing misapprehension of the Indian outlook on this point. The Indian traditions of personal rule are supposed to be more fully carried out by these periodical lapses into medieval pageantry. If we look only to the few wealthy Indians intent upon title hunting of the most grotesque description there would perhaps appear some truth in the conception of Government by pageantry. ‡ But if it is intended to blind the educated and intelligent or to satisfy the large masses of India, these Durbars fail most singularly. The educated Indian cannot but feel that the inevitable concomitant of each Durbar pageant—the Military Review—is a sufficient indication of the accepted conception of Government in the mind of the ruling class.—Government by the Sword. But for that the Coronation Durbars, which in England are untinged by Military symbolism of any kind, would have been free from the humiliating testimony of a nation's misfortune. As for the masses the personal rule they are accustomed to was one in which the ruler on all great occasions scattered gold and silver coin from his Privy Purse, and pardoned or

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* See Warner: Native states of India.

† See Indian Constitutional Reforms (1916) paras 205-206. Also the chapter in this work dealing with Provincial Finance. The dangers of provincial contributions have been stated there as fully as was possible. The financial basis of the Federal Government in India would be much sounder if the Central Government is independent of the contributions from its constituents. The aim adumberated by the Meston Committee seems to suggest that this system of Provincial Contributions is not intended to be a permanent feature of Indian Finance.

‡ The prominence given to the relinquishment of titles as an act of sacrifice and protest in the recently adopted non-co-operation programme by the Indian National Congress is an indication of the extent to which such idols of the market place can bamboozle such people as Mr. Gandhi.

hanged offenders at his own sweet will. No one would now advocate the resuscitation of such autocratic Pregoratives, however seldom the Sovereign might be visiting his distant dominions. Every one in India now realises that the Coronation Durbars are a heavy burden on the people in which the central figure contributes nothing. The gifts of the ruler come out of the pockets of the ruled, so that the traditional Indian idea of Royal munificence is unrealised. There would be no great objection to the periodical holding of the Durbars if the concessions, like those announced at the last Delhi Durbar 1911, were to be paid for out of the Civil list of His Majesty. At best, therefore. we can ignore this item of expenditure as being too insignificant to cause serious anxiety, too infrequent to involve a great hardship.

The political expenditure on Territorial or Political Pensions must be explained on purely historical grounds. It consists chiefly of allowances to dispossessed rulers of annexed Provinces; but their continuation beyond what is absolutely necessary would mean a burden on the people without any corresponding benefit. At the present time the net result of such pensions is to maintain in affluence a class which never has had, and never can have, any sympathy with the claims of Democracy in India.

Legislative Expenditure, which is not included in the ordinary Accounts of the Government of India under the heading of Political Charges, has its own justification. The precedent of England demanding voluntary Public Service in Legislative Assemblies was for a long time followed in India. But a system of free Political Service has its own defects. The class of Political aspirants is narrowed down to the relatively rich section of the community; and representatives selected from such a class cannot always be made responsive to public opinion. They would have the standpoint of Patrons not of equals. Besides gratuitous Political Service by a class economically independent is bound to be amateurish. When we speak of the "Professional Politician" of this class. the term almost always sounds tainted. The honorary Professional Politician relies on luck and excels in muddling through. But the Professional Politician, the community could obtain if the services were properly remunerated,—not excessively—would be specially trained and thoroughly competent to handle political problems, to indicate broad lines of development as well as to work them when accepted by the Community. Excessive remuneration for political Service, we must observe, is likely to be more dangerous than the system of honorary service, as in the former case jobbery would be inevitable and national affairs would be in a worse muddle than ever before. In India, before the passing of the Indian Councils Act of 1909, the Indian Non-Official members of the Legislative Councils used to be paid a fixed allowance sufficient to meet the travelling expenses and the charges of staying in the Capital during the period of Legislative activity.* At the present time the Allowance is

* Under the old system the allowances were fixed liberally so that poor members like the late Mr. G.K. Gokhale could make a living out of it without taint or reproach.

not a fixed sum but a rate of two First Class Tickets for each journey to and from the Capital, with Rs. 20 per diem by way of boarding and lodging charges. If the object of the change is to secure greater economy we would suggest the introduction of the system of Railway Passes, available only during the period of legislative activity,—and strictly non-transferable,—together with the system of fixed daily charges. But perhaps the most suitable reform would be payment of a fixed annual salary to the Councillors to enable them to devote the fullest attention to their legislative and other public duties without a thought of private business. In the present system the assumption of honorary public service is impossible altogether to deny; and, consequently, members cannot always realise that they are at the same time the Trustees as well as the servants of the Public. And, as there is nothing in the regulation to prevent Honorary members from making as many journeys to and from, as they like, requirements of economy might be more often sacrificed than otherwise. *

XXI—PENSIONS, FURLOUGH AND SUPERANNUATION ALLOWANCES.

Under this heading, we shall consider only the Civil Pensions and Leave or Superannuation Allowances, granted by the Government of India, excluding alike the Territorial and Political Pensions considered in the preceding Sub-section, and Military Pensions, considered in the Section dealing with Military Expenditure in general. The former is a diminishing quantity; the latter raises special problems of calculation and apportionment, which need not be imported into the present section to confuse its general character.

The subjoined Table shows the growths of the Pension etc. charge. The average charge under this heading, as shown by this table has risen from £ 1½ Million to nearly £ 4 million.

Year.	Superannuation. £	Civil Furlough. £
1860-61	582,262	
1870-71	1,450,763	223,741
1880-81	1,898,773	
1890-91	4,678,516	
	Receipts	
1899-00	2,677,377	278,183
1900-01	2,686,687	245,545
1901-02	2,731,113	247,752
1902-03	2,790,854	237,965
1903-04	2,831,228	230,025
1904-05	2,886,126	211,390
1905-06	2,918,200	227,072
1906-07	2,955,383	243,327
1907-08	3,009,461	329,515
1908-09	3,058,234	366,780

The general theory of Pensions from the Public Purse makes these allowances partly differed pay, and partly a recognition of the service rendered in the prime of life, and the consequent duty of the employer to provide for the maintenance of the superannuanted servant. According to the first view Pensions are not wholly paid out of the pocket of the tax-payer but are to a considerable extent a refund of what the State kept back during the period of active service of the official augmented by the compound interest

* There is no published means of knowing what is the average cost of each Councillor, what is the largest amount obtained by individual Councillors, and so what saving can be effected by the introduction of a system of Passes. It may also be noted that the principle of voluntary Public Service has been extended by the appointments of Hon. Magistrates to try petty offences in large cities like Bombay or Calcutta.

On the other hand the suggestion of a fixed salary—say Rs. 10,000 a year at most would, taking into account all the Provinces, mean an additional charge of about Rs. 50,00,000 a year, against which would be the saving of the present allowances. One is inclined to think that the financial saving would be considerable, and the increase in efficiency would be immense, particularly if the payment is made conditional upon work actually done.

1909-10	3,094,040	397,818
1910-11	3,145,885	395,311
1911-12	3,187,420	425,742
1912-13	3,284,319	412,184
1913-14	3,399,487	451,606
1914-15	3,479,734	360,430
1915-16	3,470,283	235,834
1916-17	3,475,700	252,517
1917-18	3,485,193	182,464
1918-19	3,525,200	140,909
1919-20	3,714,600	605,000
1920-21	3,998,900	* 1,103,200

on the total amount accumulated during the period of service ; or by regular contributions. In the absence of a pensions provision, however made, the State would have to pay much higher salaries, sufficient in fact to enable the public servant to make a provision for his old age from his own savings.

To leave each individual public servant to make a provision for his old age would expos deserving public servants to all the caprices of trade depressions and financial panics, to the dangers of unwise investment, or undignified penury Besides, the State must uphold the model to other private employers in the contract of service and must, therefore, solemnly affirm in its own instance the duty of the Employer to provide for the servant on retirement,

In no modern State are public Service Pensions wholly a refund of the amounts kept back by the State, or contributed by the official, during the period of active Service.

The Welby Commission discussed the Pensions paid by the Indian Government under two divisions: Pensions and allowances to officers other than the Covenanted Civil Servants, and Pensions to the Civil Servants, their Families and Medical Advisers. The Public Services Commission Report (1916) gives four classes of Pensions:—(1) **Compensation Pensions**, awarded to officers discharged after not less than ten years' service for reasons of a reduction in establishment and the consequent needlessness of their service; †(2) **Invalid Pensions**, awarded to officers retiring after not less than ten years' service, on account of some permanent mental or physical infirmity disabling them from active service: (3) **Superannuation Pensions** granted to officers retiring or compelled to retire at a particular age; (4) **Retiring Pensions** granted to officers voluntarily retiring after completing a prescribed period of qualifying service. Of these the last two only deserve any particular notice.

These pensions are calculated on the basis of the average emoluments of the retiring officer during the three years immediately preceding retirement, and in accordance with a scale of so many sixtieths of such emoluments. Usually, ten years' Service is the minimum service was required; and the Pension is 10/60 or 1/6 of the average pay during the three preceding years; 15/60 or ¼ afters 15 years' service, 1/3 after 20 years' service, and ½ after 25 years' service. To prevent highly paid officers securing an unduly large amount of Pension, the rule is laid down as to the maximum pension which any individual officer can draw, being

* The most considerable instance of compensation Pensions granted on reduction of establishment to officers found to be superfluous was in the early seventies in the case of the Public Works Department.

† Against this charge must be set off the Receipts in each case amounting to £ 217,147 and £140,909 respectively in the accounts of 1918-18.

Rs. 5,000/6,000 in the case of non-civilian public servants, £1,000 in the case of Civil Servants and some special pensions as in the case of High Court Judges £1,200 a year.

The Civil Service Pensions, and the pensions to the families and Medical Advisers of the Civil Service, were originally paid out of Special Funds instituted for the purpose. Between 1868 and 1874 Government took over these funds and assumed the full responsibility for these pensions.* The total sum taken over by the Government from the various funds amounted to close over nine crores of rupees, but on undertaking the obligation to pay a fixed retiring pension, Government decided not to maintain these funds separately. A part of the Medical Fund was used to compound the claims of the subscribers to the fund; but the rest was paid into the Treasury, and there made available either for the current or capital expenditure of the State. As the fund monies, when paid into the Treasury, were not ear-marked to any particular service it would be impossible to say with any precision how they were actually employed. It has been calculated by the India Office that large sums were advanced during the period from the Balances for the construction of Productive Public Works in India, amounting to about 8 crores. Assuming that this represents the balance of the funds taken over, it would at 4 % per annum, yield about Rs. 28 lakhs a year, which ought therefore to be deducted before we can arrive at the net Pensions charge of the Government of India.

We must take a further deduction for the four per cent. contribution which is still made by the Civil Service,—the only service in India which directly contributed anything towards its Pensions. No separate account is kept of these deductions, so that we are at a loss to say how much is contributed in any given year in this way. If, however, we take the average pay of a Civilian at about Rs. 1,500 a month, the 4 % deduction during 25 years of service would amount to about Rs. 18,000 which at 5 % compound interest would aggregate Rs. 60,000 or a net yield of Rs. 3,000 a year. This estimate substantially agrees with the one set by the latest Public Services Commission to have been made in India as well as in England.

We may notice here in passing the recommendations of the Public Service Commission, 1916, though it must be added that these recommendations have not yet fully materialised. With certain specified exceptions the Commission recommend:—

> "All officers should be under the same Pension Rules. All should serve normally for 30 years but those recruited after the age of 36—in the services noted should be granted the concession indicated, (allowed to count not more than 5 years for Pension, if they are over 25 years of age at the time of joining) and all should be able to retire optionally on a reduced Pension after 25 years' service........Maximum limits of Pensions should be

* Medical Retiring Fund taken over 1869-70 amounted to Rs. 1.11 crores; the convenanted Civil Service Annuity Fund, taken over in 1874 amounted to Rs. 3.05 crores; the Family Pension Fund amounted to Rs. 5.98 crores taken over between 1882-85. The Funds were closed to new interest in 1881. "The Annuity of £1 000 given to the Civil Servant on retirement was originally contributed to the extent of one half from the Fund, to which all those in the Service subscribed from their salaries, Government contributing the other moiety. In 1862 Government agreed to raise their position to £600 and in 1871 the Secretary of State permitted all those who had rendered the requisite service and residence to retire on a fixed pension of £1 000 a year even though their subscriptions might not have been sufficient to purchase an annuity of £ 400." (Foot Note p. 65 Welby Commission Majority Report.")

increased, and special additional pension of the amount stated should be drawn by the office noted. A scheme for a general Family Pension Fund, or for separate funds for different classes of Officers, should be worked out on a self supporting basis."

(Paras 87 to 96 of the Majority Report).

In critising the Pension Scheme for the retiring Public Servants of the Government of India no one can take an exception to the duty of the State to make an adequate provision for the retirement of its servants. Not to make such allowance would induce many a public servant to continue in service beyond the period when he can be expected at all to render useful service. Besides, the continuation in service of super-annuated officers would inevitably lead to a most dangerous inefficiency by promotion being blocked to the more deserving of the younger members of the Service. Assuming, then, the necessity of such a provision the next question is what is an adequate provision for the purpose. The retired servant should be guaranteed a reasonable scale of comfort, not, indeed, according to the official scale of living while in Government Service and holding high public office, but in accordance with the prevailing standard of life in the class from which the public servant is drawn. This being conceded. the next question would be whether or not public servants, should be expected to make any contribution to their Pensions. The original Funds being abolished, the Majority of the Public Service Commission (1916) recommended the abolition of the 4 % contribution which still prevails in the Civil Service. But the plea that it is the only branch of the Public Service expected to make any contribution, and that consequently as a matter of justice they should be exempted from making the contribution, does not appear to be very strong. If the Civil Service is the only body of Public Servants making contributions to their Pensions, they are also the only body for whom the highest appointments and other special advantages have been reserved. Besides, the public contribution towards their pension is also the largest as compared to any other department of Public Service. The State has given them specially advantageous terms by way of Exchange Compensation Allowance, and has assumed a much larger share of the contribution than was originally intended.* Moreover, the Family Pensions granted to the widows and orphans of deceased Civil Servants is also a special concession. Finally, the scale of Indian Civil Service salaries is so high, the possibilities of rising to the highest offices are so great, and the consequent chances of a greater saving so evident that it does not at all seem a hardship to expect this specially favoured body of servants to contribute a moiety of their pension themselves. And, if all these arguments are insufficient to permit a continuation of the present 4 % contribution, we would much rather see a similar contribution, levied on the public servants in other branches as well than abolish the Civilians contribution. Just as recommendation is made that the Family Pension of the public servants should be organised on a self supporting

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* Originally, the Government contribution was expected to amount to £500 to 600. Now it is nearly £750.

basis in all departments, so too should the Pension Charge be made at least partly self-supporting. *

Before closing this subject it may be pointed out that under the present rules the net total service required for qualifying for a maximum Pension is only about 21 years: and taking into consideration the average age at which the Public Servant joins the Service, it leaves a very considerable space of time for him to enjoy his Pension, at the same time turning his superabandant energy to account in other directions.

As regards the leave rules permitting absence from duties during active service without going into the details of the regulations, we may observe that there are two kinds of leave:—Short leave called privilege leave, during which the officer may be absent from duties on full pay for 1/11th of the period he has actually served, subject to the maximum of 3 months at a time being allowed, or a similar leave on full pay granted with a view to enable the officer to appear for an examination: and the Long Leave granted on reduced pay and called leave on Furlough or for reasons of health. The rules as to the maximum in the latter case differ according as the leave is enjoyed in India or outside India. While in Short-Leave no specially favourable rates of Exchange are allowed, in the case of Long Leave, since 1894, the Government has allowed a Rate of Exchange at the rate of 1s 6d per rupee, or a bonus of 12 % on the salary. The general principles on which the Leave Regulations of the Government of India have been framed proceeds on the assumption that service in the tropics is specially arduous to European Officers, and that they will not be able to maintain their usual standard of efficiency if frequent opportunities were not provided to enable them periodically to recruit their health in the more bracing climate of England. Officers are, under this belief, deliberately encouraged to take leave as frequently as they can, particularly the European Officers; with the result that the Non-effective Charges of the Civil Administration are very considerably enhanced. For an officer on leave there must be an officer in active duty who is given acting allowance which ranges up to £ 800 per

* The recommendation made above of levying a contribution from Public Servants to provide for their Pension on retirement does not conflict with the previous recommendations of a reduction of salaries all round. The salaries are already so high in comparision to the qualification required or duty exacted that the double reduction will not be impossible to support. The same spirit of Economy has dictated the double suggestion. Besides, if carried out the suggestions will render the disparity between the official splendour and the obscurity of a retired life less prominent and offensive.

We have discussed in the Part of this work dealing with public Revenue the question of an Insurance scheme operated collectively by the State. If we regard Pensions as a sort of Insurance Provision for old age or for the family, the suggestion to make a distinct contribution from the public servants and from the citizens would mean not only a handsome revenue for the State; but would also rouse interest in a department of administration which is at present almost unheeded.

† The following are the Superannuation Funds which still continue yield.

Subscription to the Military, Military Orphans, and the Medical Fund	Rs.	66,300
Subscription to the Civil Funds	„	·50,000
Subscription under the I.C.S. Family Pensions Regulations	„	10·38,000
Family subscriptions of Native Member	„	
Contributions for Pensions, Gratuities	„	12 89
Other receipts..	„	·17
Total Receipts in India	„	24·62
„ „ in England	£	49,071
GRAND TOTAL	„	213,235

annum, or even £1,000 per annum in the case of Indian Civil Servants or Military Officers in Civil Employ. There is, therefore, no saving to the Government by these rules relating to Leave and Furlough. In fact, there is a decided loss, as the Government has to provide a Reserve of 40% to meet the extra pressure of work caused by officers on Leave. For every five officers which need be employed, the Government of India has, under these regulations to employ seven, the charges of the two extra being entirely or in a large degree waste. *

* As in other branches the Public Services Commission has made very liberal recommendations for increased facilities of longer leave on higher pay, retaining the distinction and differentiations between officers recruited under the European Rules and allowed longer leave on higher pay, and officers under Indian Service Rules allowed shorter—leave on a relatively smaller pay. See para 77-83 of the Majority Report. The only recommendation of the Majority which we can accpet is that relating to increased facilities for study Leave (Para. 84-86).

CHAPTER IV.

Public Expenditure on Moral and Material Development.

XXII. CHARACTER OF SUCH EXPENDITURE.

Our third group of Public Expenditure includes all outlay on projects of the Moral and Material Development of the Community. Considered from the popular stand-point, this is the most important branch of Public Expenditure. The health, comfort, and general well-being of any community depends on the amount of the wealth of its individual members, which is the ultimate condition of Public Expenditure of every kind. And, it may be safely assumed, no one could object to the steady growth of Public Expenditure in this direction. If judicially made it is bound, even from the narrowest commercial standard, to repay itself. The modern social philosophy, regards society as a conscious, intelligent organism capable of shaping its own environment, of directing its own growth. The conscious desire of this intelligent organism impels it constantly to seek higher form of self-expression or development, resulting in an ever widening sphere of state activity and Public Expenditure. Isolated, unconcerted action of individuals would be insufficient to overcome the accumulated force of tradition, prejudice, superstition, or ignorance, which always muster strong against every project of Social Reform. Instinct seems to abhor innovation: education demands it. To work without a well conceived plan would, under the circumstances, render individual action liable to the most serious disappointment—and defeat. Individual charity, to give an example, is more often misdirected than really beneficial. Exertions for public benefit are often frustrated by the sheer force of the "Vis Inertia"; but more frequently it is the selfish opposition of vested interests which makes shipwreck of the best-planned and stoutest schemes of Social Reform. The opposition of the Sacerdotal interest to educational reform, of the Landed interest to housing or agrarian reform, of the Brewers to the Temperance Reform are all recent instances, too common in every country to be unintelligible after a bare mention.

Whatever may be the opposing force—ignorance or superstition, prejudice or tradition, "Vis Inertia" or vested interests—it is clear that no project of Social Reform can be realised without an organised effort on the part of Society collectively. The changes may come piecemeal, but the series when completed, must fit into a consistent programme. We need not recapitulate in this place the arguments which has led the best contemporary opinion to regard the State as the fittest engine for securing these reforms, the only competent and capable agency to investigate into and determine upon the conditions under which its citizens

shall live and thrive. The State must carefully select and judicially apply the influences which shape society. It may, indeed, be said that in a sense all public expenditure by the State is incurred to gain this supreme end :—Social welfare of the community within the jurisdiction of a given state. There is, however, a fundamental difference between expenditure on Defence or Departmental Administration and Expenditure for Development purposes. The first of these is addressed to the evil tendencies of men, exhibiting themselves on an exaggerated scale when manifested under a system of aggressive apprehensions of Militarist States. The efficiency of this expenditure consists in repressing or extinguishing the unsocial and inhuman instinct, so that ultimately there may be no justification for such a wasteful expenditure at all. The second class of Public Expenditure is necessary to maintain the structure of the State, its organisation, its progress as achieved at a given moment. It is conservative, not creative, just as the first kind is protective if not destructive. But these two classes lack that conception of human nature, that desire to social improvement, that effort to advance, to improve, to perfect which is such a marked characteristic of this our third group of Public Expenditure.

This group of Public Expenditure would be better considered if we subdivide it into two constituents: (A) Expenditure on moral development, and (B) that on material development. Under the former group (A) the most important single item is (a) Education. It was customary in the past to couple with educational expenditure the (b) charges connected with scientific departments, such as the department of surveys, archeology &c. They are now shown separately in the accounts. In the same group may be included expenditure on (c) the Medical Establishment and (d) on sanitation. These items may at first sight seem to have a closer affinity with the subjects included in the Group (B); but we prefer to bring them under A inasmuchas we include in the former group all expenditure for the benefit of the individual citizen, classing under the latter all expenditure for the development of the material resources of the country as such. (e) Ecclesiastical expenditure would, of course, fall within this group; but (g) the expenditure on Printing and Stationery may require some explanation for such a classification. The object of Public Printing and State publications is not really the convenience of the Official world. It has the much higher object of educating the people, or supplying information which none but the powers and resources of government can collect and disseminate. It is for this reason that the Government of the United States issues its numerous publications free of cost—not only to its own officials and citizens but to any one native or foreign requesting such books or publications.

The group (B) is more interesting, more extensive, more complex. Though most of the items enumerated under group (A) do bring in some revenue to the State, they are primarily and preponderantly items of Expenditure. The majority of the items under group (B), however, are more truly sources of revenue than

channels of Expenditure, and this character they bear out as much from the direct intentions of the State as from their indirect results. Thus the charges under (a) **Railways** and (b) **Irrigation Works** are, though very considerable, dwarfed by the Income derived from those departments by the State. Whatever their history, it may safely be said that since the commencement of the century, these branches have brought more revenue to the State than occasioned expenditure, if we exclude Capital Expenditure in that connection incurred by the Government of India. A fuller treatment of these items, therefore, cannot be attempted until we have considered the principles that should govern the State in reference to such resources of public revenues. This does not mean that we ignore or undervalue the importance of such expenditure. It only means that the double aspect of a great earning and spending department of the State, which, moreover, involve every year considerable outlay of a capital kind, cannot be attempted piecemeal. Any consideration of these items, if attempted in this chapter, is bound to be fragmentary and disjointed. Beyond, therefore, mentioning the broad principles which should govern the expenditure on these items we shall in this chapter make no attempt to consider them. (c) Expenditure on Civil Buildings, including the charges for the building of the New Capital at Delhi, and that on (d) Posts and Telegraphs, though apparently similar to the two items mentioned above, according to official classification or English analogy, are in reality widely different in this country, and ought therefore to be separately considered in this section. The Civil Buildings do not, and the Post Office is not intended to, bring any considerable net revenue to the State, though the former prevent the charges under the heading Rent, and the latter serve a very useful object to the Government as well as to the community. The Receipts under these headings may be considered along with the expenditure in the same section. (e) Expenditure on Famine Relief and (f) Agriculture are essentially similar and may be considered together; while (g) Mint Charges and those relating to (h) Ports and Pilotage being impossible to class together with any other group must be considered separately.*

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* The above arrangement omits altogether one very important item of public Expenditure:—The Expenditure for Interest. As this is a very complex head, including interest on capital borrowed for productive as well as unproductive ends, each again being composed of a number of dissimilar objects, it would contribute to clearness of discussion, as well as to its comprehensiveness, if we postpone discussion to the chapter dealing with the Public Debt of India. We must of course, remember to make due allowance for interest charges when dealing with such items as Military Expenditure or Expenditure on Railways and Irrigation works.

XXIII.—ITEMS AND DETAILS OF EXPENDITURE.

Table of Expenditure on items in Sub-Division (A) *

Year.		Education.	Scientific & other Depts.	Medical & Sanitation.	Ecclesiastical.	Printing.	Total.
1861-62	..	£ 342,592	£ ..	£ ..	£ ..	£ ..	£ 342,592
1870-71	..	,, 624,690	,, ..	,, 523,486	,, 153,554	,, 200,867	,, 1,502,589
1880-81	..	,, 998,468	,, ..	,, 666,735	,, 158,638	,, 485,010	,, 2,308,851
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1890-91	..	14,24,796	5,87,438	8,84,684	1,61,596	6,02,885	36,61,399
		£	£	£	£	£	£
1899-00	..	1,086,119	381,017	944,011	114,064	512,554	3,037,764
1900-01	..	1,091,122	466,593	941,103	116,351	509,291	3,124,460
1901-02	..	1,132,334	503,152	864,085	112,776	544,036	3,156,383
1902-03	..	1,297,664	508,419	960,539	111,023	570,738	3,438,383
1903-04	..	1,367,522	549,994	948,296	113,741	549,664	3,529,217
1904-05	..	1,479,642	537,200	996,840	121,039	574,943	3,709,664
1905-06	..	1,638,108	658,692	1,056,508	121,371	557,513	3,032,192
1906-07	..	1,819,163	729,872	1,124,656	125,996	654,306	4,443,002
1907-08	..	1,489,092	469,913	856,603	123,546	735,584	3,674,738
1908-09	..	1,682,335	489,431	1,017,712	120,082	786,728	4,096,288
1909-10	..	1,704,872	457,873	967,833	124,043	724,722	3,979,343
1910-11	..	1,846,243	487,932	982,922	124,678	714,169	4,155,344
1911-12	..	2,021,189	519,305	1,155,490	124,488	669,691	4,490,083
1912-13	..	2,610,132	504,819	1,327,218	126.003	679,542	5,047,714
1913-14	..	3,176,809	473,288	1,337,935	127,712	729,756	5,845,500
1914-15	..	3,308,814	465,490	1,514,235	127,219	732,266	6,148,024
1915-16	..	3,111,127	432,058	873,750	131,046	741,044	5,279,025
1916-17	..	3,132,948	439,180	865,766	128,537	807,038	5,373,469
1917-18	..	3,394,674	512,700	962,796	132,670	952,205	5,955,039
1918-19	..	3,973,200	671,600	1,185,600	139,900	1,082,600	6,942,900
1919-20	..	4,884,900	655,700	1,338,100	146,400	984,900	8,010,000

GROUP A.

XXIV.—STATIONERY AND PRINTING.

Taking the unimportant items in this group first; (a) **Printing and Stationery** Expenditure, as already remarked, is under taken not so much for the covenience

* The figures in all the years except the last two are for the final accounts as shown in the Finance and Revenue Accounts of the Government of India. In the last two years the figures represent the Revised Estimates, (1918-19) and the Budget estimates (1919-20) respectively.

† The item of education was in the earlier years mixed up with the figures of the Scientific Departments &c. No good comparison can, therefore, be instituted with the earlier years without considerable deductions. We have consequently given consecutive figures only for the years after 1899. The conversion of the rupee figures into sterling for the period between 1899 and 1917 is relatively at a fixed rate. The figures for the year 1890-91 are given without conversion in tens of rupees or Rx. as expressed in the statements of those years.

of the officers as for the instruction of the public in general. It is a great asset in favour of the present Indian Government,—though the officers responsible for it do not appear always to understand or appreciate it—that all its acts and deliberations are, sooner or later, naked or dressed before the public. We cannot conceive of a democracy without its first requisite of publicity in Government. India is not a democracy. Its government does not welcome or desire a blaze of ceaseless publicity. There is a considerable amount of autocratic action—more than the outside critic gives credit for—secret planning, back stairs influence in the Councils of the Government of India. But still, compared to the Governments of India that have gone before, we now enjoy a much greater publicity. It may spring from vanity. The various reports and documents may disclose a certain tone of superior aloofness not consistent with the innate sympathy and clear understanding of the people's problems by an indigenous national government. Sometimes its resolutions and ordinances adopt a style of impatient advocacy, insistent repetition, ill-concealed aspersons, which may be undignified and unnecessary, making the reader recall the truth of the remark " qui s'excuse s'accuse. " Butw hen all is said this publicity such as it is—is a great thing. It is an achievement for a government, wholly alien in personnel and often unsym pathetic in character, boldly to disclose its doings and frankly to invite critcisms. It is an achievement when the entire information on questions of public interest in India is exclusively supplied by the Government and yet not even their bitterest critics ever impeach the accuracy of the information. It is only to be wished that the present policy of charging a price would be dropped or so modified as to make the public information more easily accessible. The sub-joined table shows the total amount realised from the sale of Government publications; and it may be urged the Government of India, poor as it is, may well sacrifice this little income without much inconvenience. The charges, however, it must be admitted, are not excessively high. Following the English practice they are fixed so as just to cover the cost of publication. *

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* It must also be observed in passing, that the recent change in the size and get-up of the most important government publications from the usual folio blue-books to the new handy well bound books is the latest indication of the true view of public printing. The Montagu Chelmsford Report on the Constitutional changes as well as the Report of the Industries commission were published in this convenient hand-book form. And the recommendation of the latter commission towards a better diffusion of commercial information emphasises the same tendency.

On the other hand high Government officers incline to the view that in India the value of such information is not so well understood as to render the danger of such books, if given freely, being used as waste paper insignificant. The charge is a guarantee of use, though a hindrance to wide publicity. We would suggest that the charge be retained in so far as the information is demanded by foreigners, or even by those not primarily connected with the subject matter of the information required; but that it should be remitted in the case of all applicants able to show a genuine interest in the subject Research students, public bodies, the periodical press, colleges, school and libraries will thus afford a guarantee of use and surety of publicity without possibility of misuse.

* Table showing receipts and expenditure under the head of stationery.

Year.	Total Receipts. £	Expenditure. £	Net charge. £
1890-00	55,659	512,554	456,995
1900-01	55,625	509,291	443,666
1901-02	62,913	544,036	481,123
1902-03	59,692	570,738	529,046
1903-04	713,57	549,664	478,307
1904-05	71,778	574,943	503,165
1905-06	73,380	557,513	484,133
1906-07	78,531	654,306	575,775
1907-08	91,472	735,584	644,112
1908-09	95,868	786,728	691,160
1909-10	95,324	724,722	629,398
1900-11	97,656	714,169	616,463
1911-12	96,891	669,691	572,800
1912-13	92,078	679,542	587,464
1913-14	93,416	729,756	636,340
1914-15	97,591	732,266	634,672

XXV. (b) MEDICAL AND SANITATION.

The Welby Commission on Indian Expenditure disposed of this great head of public expenditure in a single **short paragraph**, suggesting thereby that the Government of India does not consider this head very important. The practice of the Government of India in the last twenty years but too amply and painfully confirms this view. The cost of the Medical department, including sanitation, was estimated at £1,338,100 in the Budget of 1919-1920 and 50 years before it totalled £523,486.

The Indian Government maintains a large staff of medical officers only for the benefit of its servants. These are paid fairly high salaries; yet permission to continue private practice in important centres of population is too tempting not to be utilized even at the risk of great prejudice to their official duties. Many of the Officers are employed in sanitary duties, and not a few of them are in charge of important prisons. Their sanitary duties include the control of large sanitary areas, dealing with the sanitation of large towns, the preservation of water supply, and the prevention of epidemic disease. It is a strong instance of many anoma-

* The Stationery Receipts were in 1914-15 derived:-

		Rs.
1.	Sale of stationery	4,48.322
2.	Sale of Gazette &c.	4,45,221
3.	Other Receipts	5,70,363
	Total	14,63.906

The charges were:—

			Rs.
1.	Office charges		4 24,312
2.	Purchase of stationery		45,83,197
3.	Government Presses		53,34,180
4.	Other charges		1,56,755
	Total		92,82,874
	Charges in English	£	113,407
	Total		732,266

lies in the organisation and working of the Government machine in India that, until quite recently, the Medical department also supplied officers for the Mint. A very small proportion of the officers engaged in this branch of the public service is specially engaged in research, particularly on tropical disease. in bacteriological laboratories, which have been established in India in the last fifteen years.

This service dates from the time of the East India company. It was organised in 1764 even before the Civil service ; and was divided into the 3 Presidency establishments in 1766. The division of the officers between Military and Civil branches, confirmed in 1788 and lasting ever since, is only for the purpose of convenience, the Indian Medical Officers in Civil employ being considered as temporarily placed on civil duties. In 1898 all medical officers were given a military rank. Since 1906 the names of all officers are borne on a single list, though on his entry into the service each officer is given the option to elect the province in which he would serve. The entrance to the service is by a competitive examination to which Indians have been admitted since 1853. But in the course of 57 years that followed only 89 men of pure Indian extraction had entered the service before the end of 1910. Even today, according to the latest figures, not more than five per cent. are the natives of the country in spite of the heavy demands of the war.* The comparative weakness of the Indian element is due not to the unpopularity of the medical service amongst the natives of India, but rather to the influences which have so far successfully maintained the practical monopoly of Englishmen in all the superior and most paying branches of public service In 1914 a Parlaimentary Paper was published containing the correspondence of the Government of India and the India office regarding an Independent Medical Profession in India, with a view if possible, to reduce the strength of the service. The Government of India declared, and the Secretary of State agreed, that there was no room for the reduction in the strength of the existing service. But the latter suggested that the Indian Medical Service men should be restricted as far as possible to Military duties both with a view to economy and in order to increase the number of appointments held by Indians who were at that time debarred from holding any commissions in the Army. During the great war a small number of Indians were temporarily.. appointed commissioned medical officers in the Army. The Secretary of State also pronounced against any increase in the civil posts. As regards an independent medical profession Government were aware of the large and rapid growth in the number of Indian Medical graduates. But they saw that these latter had much opposition to overcome from the practitioners of indigenous systems of medicine, who were of course more often quacks than qualified medical men even on their own lines. It is proposed to protect the Indian Medical graduates—the representatives of the European System of medicine and surgery by a system of registration on the lines of the Bombay Registration Act (recently revised) The subject however is still under consideration.

* Out of 760 posts carrying Rs 200 p m. and over Indians held 238 or 31 %. Out of 411 posts with Rs. 500 or more Indians held 36 of 11 % Out of 237 of Rs. 800 or more Indians held 9 or 4 % in 1913 (See Public service commission report (1916) p.p. 24-25.

The total strength of the Indian Medical service consists—according to the latest available figures—of 768 Medical men. The pay of those officers is regulated according to the following table (Military employment) N. B. when employed on the civil side the pay ranges from 2,250-2,500 for the Inspector-General of Civil Hospitals (when a Lieutenant-Colonel) to Rs. 750 for professional appointments in the Medical Colleges (when held by a Lieutenant). Officers are allowed to retire on completing 17 years service, the amount of the pension varying with the precise number of years of service. For the lowest pensionable period of service (17 years) £300 per annum is allowed, whilst for the highest service of 30 years £700 per annum is allowed. The increase in the Pension is uniform for every year of service for the first eight years after 17 years' service, and the rate is some what higher for the next five years making up the total of 30 years. All officers of the rank of Major and Lieutenant-colonel are put on the retired list on attaining the 55th birthday whilst the highest age-limit for active service is 62 years

Rank.	Unemployed pay.	Grade pay.	Staff pay.	Offg. charge.	Permanent charge.
Lieutenant	Rs.	Rs.	Rs.	Rs.	Rs.
(per month) ..	420	350	150	425	500
Captain ..	475	400	150	475	550
" after 5 years service ..	475	450	150	525	600
Captain after 7 years service ..		500	150	575	650
Captain after 10 years service..		550	150	625	700
Major ..		650	150	725	800
After 3 years service as major..		750	150	825	900
Lt. Colonel ..		900	350	1,075	1,250
" after 25 years service ..		900	400	1,200	1,300
Lt. specially selected ..		1,000	400	1,200	1,400

The Sanitary department, which has recently been proposed to be raised into a special department of Public Health, has a history not extending beyond 50 years It was in the time of Sir J. Lawrence that the need of a wholsesale system of sanitary reform first began to attract attention owing to the unhealthy conditions of life in the barracks for the British soldiers The sanitation of the town has indeed materially developed during that period.* But the problem of rural sanitation remains practically where it was half a century ago. After the days of Sir J. Lawrence no definite steps were taken by the Government until 1898 when a policy was formulated in a comprehensive Resolution. The outbreak of Bubonic Plague, which was just about that time raging all over India, must have contributed not a little to quickening the slow moving machine. The report of the Plague Commission compelled the Government of Lord Curzon to take up energetically this problem. They created a Sanitary Commissionership to advise the Government of India on sanitary and Bacteriological points, to suggest to Provincial Governments directions in which advance can be made, and to organise research throughout India. But this arrangement was based on a separation of research from clinical work which prevented men of talents from entering the new department; while the office work so completely absorbed the time of the Sanitary Commissioner that his salary was practically wasted as far as promotion of

* See Strachey's India on the Sanitary conditions prevailing in Calcutta in the fifties of the nineteenth century.

medical research was concerned. The position was therefore modified. The Sanitary Commission is now the technical adviser of the Government of India in all matters of sanitation: but questions of personnel and administration of bacteriological department and Research institutes were placed under the Director General, Indian Medical Service. Expenditure on sanitation was also considerably increased. Since 1908 Government were making an annual grant of 30 Lakhs a year for sanitary purposes, which was substantially increased in 1912 by the changes made in that year. Grants are also made annually to local bodies and provincial Governments to promote sanitation in their jurisdiction.

In spite of this improved organisation and increased expenditure the progress of sanitation is still in its infancy

"The reason lies in the apathy of the people and the tenacity with which they cling to domestic customs injurious to health. Great improvements have been effected in many places but the village house is still often ill-ventilated and over populated. The village site is dirty, crowded with cattle, choked with rank vegetation and poisoned by stagnant pools; and the village tanks polluted and used indiscriminately for bathing, cooking and drinking." *

Much of this is no doubt due to the ignorance of the people but by far the greatest portion is the result of their appalling poverty. The problem of village sanitation—it is hopeless to expect the village authorities to solve by themselves, in spite of all the resolutions and injunctions of the Government of India. For a generation to come—until, that is, we have completed an agrarian revolution—the State in India must bear the brunt of the burden in this department. And the burden will be heavy in proportion as our sanitary ideals advance. and to the extent that the people benefitted are unable to contribute substantially. So far the Government of India have relied on private assistance to promote the cause of sanitation. But, though in the pandemic attack of influenza in 1918-19 this private non-official agncy worked wonders in combating the disease in such centres as Bombay, we can hardly say that, considering India as a whole, private agency could be relied on to do this work satisfactorily Just as the Government of India keeps under its own uthority all questions of research, so too must they bear all burdens at least so far as rural sanitation is concerned †

In the matter of financing sanitary Expenditure we must mention the of repeated proposals of the late Mr. Gokhale, which once he recommended to the Government in a formal resoluti on (1910) He was in favour of applying all sur-

* Resolution, Government of India May, 23rd 1914. (Gazette of India May 25th 1914).

† The following figures show India in a most unfavourable light in matters of sanitation.

	Birth Rate per 1.000 (1902-11).	Death Rate per 1,000 (1902-11)	Deaths of children under 1 year per 1,000.
Russia ..	48. 7	31.41	
India ..	38.58	34.2	300 (averg).
Germany ..	32.31	18.39	186.4
Japan ..	32.89	20.86	159.8
England and wales ..	26.8	15.15	127.3
New Zealand ..	26.79	9.16	64.3
Australia ..	26.52	11.11	87.5
Scotland . ..	27.99	16.33	116.1

When out of every three children born one is fated to die with in a year the situation can scarcely be called encouraging. We have the largest rate of Infant mortality and of general mortality (See the Population Problem in India, P. K. Wattal).

plus revenues to the development of sanitation. As there was no other way to induce the Government, committed to a disproportionately and rapidly increasing military and civil expenditure, and as there was no room for additional taxation, he thought it best to advocate the use of all windfalls in revenues towards this most laudable end. But apart from the special circumstances, which narrowly limited his proposal, we doubt if he would have supported a policy of financing sanitary expenditure from annual surpluses. The excess of revenue over expenditure, though it was fairly frequent between 1898 and 1914, could certainly not be depended upon for financing a heavy, regular recurring, and indispensable expenditure. On his own authority it is an indication of defective finance when the estimates of revenue substantially fall below the actuals. It would be a point of honour with a good financier to make his estimates tally as closely as possible with his actuals. We should, therefore, have a very small, uncertain, varying sum if we depended only on the annual budget surplus for sanitary projects. *

The Chief problems of sanitation in India centre round the supply of house room in large cities and recreation spece, water, drainage. and the regulation of pilgrim traffic. Housing refoim is only just begining to attract alleution, and sought to be remedied by such palliatives as the Bombay Rent Act, The Bombay Development scheme is more ambiteous and consequently more liable to criticism The water supply and dreinage schemes are now carried on similtaneously and it has been estimated that in the last 20 years the total sums spent on these amount to $4\frac{1}{2}$ crores, while the works under construction or sanctioned are estimated to cost another 3 crores. The question of the Pilgrim Traffic is the most difficult as the religious feelings of the people are involved; and yet it cannot be left alone as it is through the pilgrims that the infectious diseases spread in the country most rapidly. The subject was under inquiry at the time the War broke out and was kept into abeyance pending the great struggle. But we may be sure one of the first tasks of the government with the return of peace will be to tackle this question.

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* Sanitation or Public Health, made over to the Local Government, will not improve materially in the present state of Local Finance. The Development Scheme for the city of Bombay (1920) clearly indicated the necessity of special taxation. The problem of financing rural as well as urban sanitation will be the greatest test of Indian statesmanship.

The following table gives **an analysis of *Medical* and sanitary *Expenditure* and receipts.**

Year.		Medical College &c. fees. Rs.	Hospital Receipts. Rs	Lunatic Asylum Rs.	Contributions. Rs.	Other Receipts. Rs.	Total India. Rs.	Receipts in England. £	Total £
1907-08	..	1,93,440	2,36,852	1,06,976	1,54,707	81,568	7,73,443	907	42,469
1908-09	..	1,95,734	2,75,902	1,15,277	1,30,068	1,16,110	8,33,091	1,010	56,549
1909-10	..	2,24,771	2,96,329	1,33,933	1,50,687	1,37,646	9,43,366	806	63,697
1910-11	..	2,35,318	3,15,580	1,38,715	151,274	1,48,939	9,89,826	859	66,847
1912-13	..	2,57,409	3,17,393	1,44,142	3,23,786	1,83,253	12,25,983	772	82,505
1913-14	..	2,87,136	3,43,077	1,34,634	1,88,229	2,42,604	11,95,680	676	80,388
1914-15	..	3,04,691	3,72,567	1,37,629	1,74,761	2,72,230	12,61,878	633	84,758

Analysis of *Medical* charges and sanitation.

Year	Medical establishment. Rs.	Sani & Vaccination Rs.	Med. School & colleges Rs.	Hospitals & Dispensaries. Rs.	Lunatic Asylums Rs.	Plague charges. Rs.	Other special charges. Rs.	Miscellaneous. Rs.	Total India. Rs.	Total England. £	Gross. Exp. £	Net. Ecp. £
1907-08	39,71,522	13,17,114	11,43,445	31,78,027	8,18,122	19,50,108	1,37,759	2,22,177	127,38,274	7,385	856,603	804,174
1908-09	4,15,467	31,43,525	11,72,349	33,80,547	8,37,319	19,43,278	2,47,786	2,31,972	151,07,243	10,562	1,017,712	961,163
1909-10	9,62,221	29,08,899	12,01,103	37,05,753	8,23,954	12,35,284	3,00,586	2,31,644	143,69,495	9,866	967,833	909,598
1910-11	39,86,879	28,19,681	12,41,695	40,92,736	8,34,935	9,82,614	3,75,776	2,35,427	145,69,743	11,606	982,922	919,225
1911-12	40,62,773	43,03,651	13,31,341	43,83,806	8,84,243	10,92,009	8,59,986	2,40,466	171,58,275	11,605	1,155,490	1,088,643
1912-13	42,34,007	56,88,940	15,17,976	49,03,330	93,8,527	11,13,106	10,85,957	2,68,467	197,50,310	10,531	1,327,218	1,244,713
1913-14	43,72,383	42,50,741	18,53,195	60,75,287	10,24,598	90,8,856	11,63,909	2,95,568	199,44,237	8,319	1,337,935	1,257,547
1914-15	42,48,870	69,13,611	17,07,724	63,64,367	10,68,917	8,11,614	11,89,083	3,14,244	226,18,431	6,340	1,514,235	1,429,477

XXVI. (c) ECCLESIASTICAL.

India spends every year nearly £125,000 on ecclesiaiastical affairs, though in the ordinary acceptance of the term, she has no Established Church. The following table gives an analysis of the expenditure on this head.

Year.	Anglican.	Scottish.	Roman Catholic.	Cemetry.	Total Expenditure.
	Rs.	Rs.	Rs.	Rs.	£
1907-08	16,36,115	1,00,123	49,289	36,072	123,546
1908-09	15,60,953	1,04,029	56,257	68,908	120,082
1909-10	15,97,767	1,23,202	61,486	70,857	124,043
1910-11	16,30,320	1,22,000	48,375	64,465	124,678
1911-12	16,22,160	1,20,647	52,407	67,533	124,488
1912-13	16,27,866	1,21,915	65,535	70,656	126,003
1913-14	16,68,224	1,11,372	64,798	69,783	127,712
1914-15	16,54,343	1.23,864	51,204	67,677	127,219

This ecclesiastical department is maintainedb y the Government of India to secure religious ministrations, primarily for the European troops in India, incidentally also for the European public servants and their families. Out of the eleven Bishoprics of the Anglican Church three are fully recognised and paid by the Government of India, four more are recognised but paid only as senior chaplains, and the remaining four are recognised and paid out of the funds of the eccesistical department. The total Christian population of British India, according to the last census was 2,492,284 souls. It is one of the ironies of public administration that while the Government adopts an attitude of the most stringent neutrality with regard to the religions of the people of India, it spends almost 1- per head of Christian population for religious service. The only criticism one need pass on this item is that the tendency of the modern state is justly towards a complete secularisation; that in countries like India, an official religion is impossible to establish without the gravest injustice to the rest of the population; that the Christian religion can by no standard of fairness be made the Established Religion of India; that the Government is prudent enough in keeping these estimates outside the scope of Budget discussion allowed to the Legislative Council; and that it is high time the State in India severed all official connection with the Church, and discontinued its present religious expenditure. The sum is small, but not too small to be useful in other more urgent and fruitful directions.

XXVII. EXPENDITURE ON EDUCATION, SCIENTIFIC AND MINOR DEPARTMENTS

" Education in India," says Howell, " Under the British Government was first ignored, then violently and successfully opposed then conducted on a system now universally admitted to be erroneous, and finally placed on its present footing."

In this attempt at a critical historical study of Indian Finances we are not at liberty to trace, however briefly, the educational organisation of India in the Pre-British Era. For obvious reason, the East India Company ignored altogether the ruler's primary duty to educate the subject races. In 1814 for the first time, the Court of Directors announced the grant of Rs. 1,00,000 for purposes which we should now characterise as educational; and on this meagre provision the education of over two hundred million souls was to be attempted in the next forty years. A definite policy was formulated in 1854 by Sir Charles Wood. Education of the people of India was, if not a primary duty of an enlightened State, at least to be extended and systematised through the Agency of the State. A Department of Public Instruction was to be instituted in all the important Provinces, Universities founded in the Presidency Towns; Training Schools established. Government Colleges and Schools maintained and their number increased whenever necessary. Extension of education in all its forms was to be encouraged by a well-defined system of Grant-in-Aid. Pursuant to the Dispatch, Universities were established in the three Presidency Towns in 1857, in the Punjab in 1882, and at Allahabad in 1887. It was hoped that by taking care of the higher education, the lower classes would automatically receive attention, by means of the "Filtering through" of the education imparted in the superior classes. Efforts were consequently concentrated on the development of University and Secondary Education leaving the primary education relatively neglected.

The system of education, as established by the Dispatch of 1854, remained in operation for nearly a generation. In 1882, Lord Ripon's Government* appointed a commission to enquire into the state of education throughtout the country, practically in reference to the policy laid down in **1854**. They found that in 1882, there were roughly speaking 85,000 primary schools giving instructions to about 2,150,000 pupils, while unrecognised schools provided instruction for another 350,000. Compared to the population of India at the time, this figure works out at 1.2 per cent of the total population. The Commission recognised this defect in the system of India's education and recommended the extension and improvement of the primary education. From this time onward, we may mark a change of opinion and policy in regard to public instruction. Primary education begins to receive greater attention, than hitherto. As regards secondary education, the result of the Commission's report was a withdrawal of Government control on private instruction and a permission to the latter to lower their fees. These recommendations have been characterised as "a charter of indefficiency" by the critics of the commission. From 1882 to 1902, the period is described as an indiscriminate stampede for education regardless of the results. In 1901, Lord Curzon called a Conference to consider the constitutional changes in the Indian Universities. The Indian Universities Commission was appointed in the following year,

* See the Speech of Mr. Gokhale on the Elementary Education Bill, Imperial Legislative Council, 18th March 1910. The speech is a mine of facts regarding education in India.

and its report was made the basis of the new act of 1904, which now governs the Indian Universities. It was violently opposed by the Indian Public opinion, alarmed at the excessive centralisation, officialisation of the senates, and costliness of higher educational machinery.* Another result of Lord Curzon's educational activity was the appointment of an expert travelling Committee to advise on Technical education. At the same time renewed and increased attention was paid to the question of mass education. Finally, when a separate Department of Government of India was established to look after Education and Sanitation in 1910, Education came to receive its due recognition in the Government of India.

Confining ourselves for the moment to the Finance of education in India, we must notice first, that the despatch of 1854 did not prescribe any definite financial policy. It was left as a general charge on the aggregate finances of the Country. But a definite policy, making education charges a special burden to be specially provided for was first formulated in 1859. It imposed local cesses, being a fixed per centage of Land Revenue for purposes of Primary Education. Local Cess Acts were passed in Madras (1866). Bombay (1859) United Provinces and the Punjab (1871), Bombay making the cess compulsory, Madras and Bengal allow it to remain semi-voluntary. The total expenditure of 76 lacs of rupees in 1866-1867 (11 months) was met as follows; Imperial Funds 48 lacs; Education Cess Committee receipts, cess proceeds, fees &c. 23 lacs; and the rest from private contributions. In 1871-2 under the new system of financial decentralisation, Educational Expenditure was placed under the Local Governments, who were to meet the charges under all the heads surrendered to them from a lump sum allotted to them. Following the report of the Educational Committee in 1882, and in accordance with Lord Ripon's general scheme of developing Local Self Government, Primary Schools were made over to Local Boards, with power to levy Local Cesses support the Schools. Though the Local Revenues have never been very elastic, they have been contributing a steadily increasing proportion of the total expenditure. The policy then inaugurated continues in all essential particulars still; so that at the present time the cost of education in India is shared almost equally between the public and private funds. The former includes Provincial Revenues, consisting of special Imperial Grants earmarked to special purposes and the proceeds of the Provincial sources of revenues, together with Municipal and District Boards Revenues consisting chiefly of the Cess Proceeds. As this last item is usually insufficient Provincial Governments make "Equilibrium Grants" for the general purposes of equalising income and expenditure, and special grants to promote specific objects like Education and Sanitation. Thanks to these arrangements, the progress of Education in India has been found to be though slow reasonably steady. The following table shews that progress at different dates.

* For Anglo-Indian Opinion cp. Fraser, "India under Curzon and after."

Growth of Expenditure

Year.	Rs. Govt.	Rs. Total.
1886-87	1,34,81,812	2,52,42,414
1891-92	1,55,18,184	3,05,79,632
1896-97	1,57,65,650	3,52,44,900
1901-02	1,77,03,968	4,01,21,462
1905-06	2,96,34,574	5,59,03.673
1911-12	4,05,23,072	7,25,92,605
1915-16	6,21,68,904	11,06,29,249
1916-17	6,14,80,471	11,28,83,068
1917-18	6,48,01,690	11,82,09,137
1918-19	7,19,26,292	12,98,63,073

Growth of Pupils.

Years.	Males.	Females.	Total.
1886-87	3,115,808	277,736	3,393,544
1891-92	3,517,778	339,043	3,856,821
1896-97	3,954,712	402,156	4,356,870
1901-02	4,077,430	444,470	4,521,900
1906-07	4,743,604	645,028	5,388 632
1911-12	5,828,182	952,539	6,780,721
1915-16	6,431,216	1,186,261	7,617,496

Those figures shew, that in 1915-16 of the total male population 5 % and total female population 1 % and of the total general population 3 % were at school. Taking Mr. Gokhale's basis of 15 % as the proportion that ought to be at School, only one out of every three boys, one out of every fifteen girls, and one out of every five of the general population, which ought to have been at School, were at School, at the latest date under review.

The following table gives an analysis of the expenditure on Education and the receipts of the Government under Education :*
(in lacs of rupees).

	RECEIPTS.			CHARGES.						
Year.	Fees Rs.	Contribution.	Total.	Dirctn.	Insp.	Univ.	Col.	Schools.	Grants.	Schools.
1899-00	19.29	1.18	23.74	3.67	19.68	.29	17.81	67.22	42.98	5.84
1900-01	19.76	1.03	24.37	3.54	19.99	.30	18.84	69.09	41.81	5.93
1901-02	20.11	1.66	26.00	3.74	20.35	.28	19.05	70.30	45.39	5.99
1902-03	21.31	1.72	27.33	4.31	21.32	.32	19.89	77.60	58.64	6.18
1903-04	22.01	1.34	27.93	4.94	33.05	.22	20.88	84.01	59.00	6.33
1904-05	23.15	1.77	29.15	5.26	24.85	2.35	21.90	92.75	51.94	6.68
1905-06	25.11	2.39	31.79	5.53	28.28	3.73	92.62	10.45	267.52	7.16
1906-07	26.14	2.86	33.53	6.32	30.13	4.11	25.58	114.64	77.39	7.69
1907-08	16.99	.80	21.79	6.57	26.77	6.09	28.70	65.33	63.38	5.68
1908-09	17.60	.84	23.76	6.88	29.92	4.26	28.65	84.48	66.35	6.08
1909-10	18.99	.87	24.88	6.86	33.36	4.07	29.03	82.97	77.37	6.50
1910-11	22.34	.89	27.54	7.43	34.44	2.75	30.89	101.40	73.80	6.71
1911-12	24.79	.84	30.84	7.16	35.95	3.38	33.97	111.54	81.75	7.32
1912-13	27.91	1.25	33.92	3.18	38.99	22.12	37.88	140.66	115.45	8.07
1913-14	30.61	1.00	37.18	8.43	43.01	12.44	40.27	176.14	141.90	9.13
1914-15	33.27	.59	39.93	8.90	46.61	8.09	43.09	179.23	171.00	10.28

N. B.—These figures are in lacs of Rupees.

* The latest available return gives the number of pupils at 7,153,615 in 169,330 public institutions, and 597,914 scholars in 35,017 private institutions, or a combined total of 7,936,577 and 197,347 respectively. The total expenditure of Rs. 12,98,63,073 in 1918-19 was distributed as follows:—

University Education	Arts	Colleges	Rs.	75,77,778	Secondary Schools	Rs.	3,66,71,903
,, ,,	Professional	,,	,,	38,94,654	Primary ,,	,,	3,53,27,204
,, ,,	,,	,,	,,		Special ,,	,,	50,01,796
,,	University	,,	,,	43,97,221	Training ,,	,,	33,75,705
	Direction		,,	8,82,950	Scholarships ,,	,,	24,08,081
	Inspection		,,	53,60,255	Building ,,	,,	1,41,79,388
					Miscellaneous ,,	,,	9,07,86,020

The following table gives an analysis of the expenditure on Education and the receipts of the Government under Education: (under lacs of rupees).

Year.	Total Education. Charges. £	Total Education. Receipts. £
1899-00..	.. 1,085,119	158,336
1900-01..	.. 1,091,122	162,470
1901-02..	.. 1,132,334	173,335
1902-03..	.. 1,297,664	182,245
1903-04..	.. 1,369,522	186,236
1904-05..	.. 1,479,642	194,381
1905-06..	.. 1,638,108	211,971
1906-07..	.. 1,319,163	223,582
1907-08..	.. 1,489,092	145,285
1908-09..	.. 1,682,335	158,110
1909-10..	.. 1,704,872	165,875
1910-11..	.. 1,846,243	183,636
1911-12..	.. 2,021,189	205,610
1912-13..	.. 2,610,132	226,126
1913-14..	.. 3,174,809	247,905
1914-15..	.. 3,308,814	266,250
1915-16..	.. 3,111,127	295,036
1916-17..	.. 3,132,948	298,278
1917-18..	.. 3,394,674	320,133
1918-19..	.. 6,123,275	

According to the detailed figures of 1914-15 out of a total charge of Rs. 500 lacs. (1) Direction & Inspection cost Rs. 55.50 lakhs, or 11%. (2) University and Colleges cost Rs. 52.0 lakhs or 10 %. (3) Schools cost Rs. 179.23 lakhs or 36 % (4) Grants cost Rs. 171 lakhs or 34 %.

Out of a total outlay, direct and indirect, of Rs. 12,98,63,073 in 1918-19, Direction and Inspection consumed Rs. 62·43 lakhs or 5 %. Buildings and apparation Rs. 141·79 lakhs or 11%, Miscellaneous 107·86 lakhs or 8% and Scholarships Rs. 24 lakhs or 2%. The higher education in University and College cost 158·90 or 12% while Secondary schools accounted for 30% and Primary schools 27% and other schools for 6%.

This table shews a more rapid growth on educational expenditure during the last ten years, before which it was more or less stationary. Healthy as this indication of a more vigorous policy in education matters seems to be, it must yet be noted that the distribution of educational expenditure leaves in the back ground the question of the primary education, the question of educating the masses of the people. No doubt, since 1910, considerable activity is shewn by Government in developing primary education and the statistics given above prove that the subject is receiving more and more attention. But much remains still to be done in this direction. The history of efforts for popular education is relatively speaking very recent. Government did, indeed, pay some attention, ever since the definite formulation of an educational policy from 1859, which was again modified for the better in 1882 and 1902. But the changes made at these three dates referred principally to higher or University Education rather than the education of the masses. It was not till after the Constitutional Reforms of 1909 that the late

Mr. Gokhale first tried to draw public attention as well as that of the Government to the most important question of Primary Education. In March 1910 he moved the following resolution in the Imperial Council.

> "That this Council recommends that a begining should be made in the direction of making Elementary education free and compulsory throughout the country, and that a mixed commission of officials and non-officials be appointed at an early date to frame definite proposals."

That resolution served to arouse public discussion both in the Council and outside; and, though that year it had to be withdrawn, the very next year, in March 1911, he introduced the celebrated Elementary Educational Bill. He shewed by comparative statistics that at least 15 % of the total population in any country would be of school going age, i.e. between the years of seven and twelve. This was a very moderate estimate. But the proportion in India was at the time of the Bill only 1.9 %.* As regards expenditure he also shewed that while the United States spent 16s. per head of population on primary education, Australia 11s. 3d., England and Wales 10s., Scotland 9s., Germany 6s 10d., Belgium 6s. 4d., France 4s. 10d. India spent barely 1d.† To remedy these glaring defects in the Educational Policy of India, the Bill "to make better provision for the extension of elementary education" was introduced. It was a cautions measure, and made compulsion only a permissive principle. (1) before the provisions of the Act could be applied in any local or municipal area, a certain proportion of boys or girls was to be already at school, the percentage was to be fixed by the rules made by the Governor-General in Council. (2) The Municipality or Local Board might, when this condition was fulfilled, apply the Act to the whole or any specified part of the area within the local limits of its authority, but it was not incumbent on the authority to apply it. (3) Even when the condition of School attendance was fulfilled and the Local authority was desirous of applying the Act, the consent of Local Government was necessary before this could be done. (4) Whenever the provisions of the Act were in force it should be incumbent on the parent of every boy not under six and not over ten years of age, residing within that area, to cause him to attend a recognised school for elementary education on a number of days and for periods to be prescribed by the Department of Public Instruction. (5) Ample provisions were made for exemption in individual

* According to the figures given in the last quinquennial Report on Education in India the percentage of population enrolled in elementary schools was 2·38 as against.

19·87	in	the U.S.A.	13·90	in	France.
16·52	in	England.	13·07	in	Japan.
16·30	in	Germany	3·77	in	Russia.

The Indian figure would be slightly higher i.e. 2·68 per cent if we include pupils in the primary stages of instruction in the Secondary schools. If we consider the male population alone the figure would rise to 3.83 per cent.

† The average expenditure in India has since Gokhale's time increased and is now nearly 6d. per head. But consider the following comparisons :—

Country	Population	Education Expenditure £	Cost per head
U K.	45,316,000	33,473,000	15/—
U.S.A.	91,972,000	125,000,000	27/—
France	39,602,000	23,000.000	11·6/—

cases, and the local government might further exempt particular classes or communities from the operation of the Act. (6) No boy required to attend school should be charged any fee if his parents income did not exceed Rs. 10 a month, and other remissions of fees were allowed. (7) Wherever the Act had been made applicable to boys, it might also be made applicable to girls. (8) School attendance committees were to be appointed whose duty it should be to complain, after warning, against parents of defaulting boys before a Magistrate. The Magistrate was to enquire into the case and direct the parent to make the boy attend. If his directions were disobeyed, the parent was liable to a fine not exceeding Rs. 2 for the first offence and Rs. 10 for repeated non-compliance. (9) The Municipality or District Board having jurisdiction over an area where the Act applied, was to provide such school accommodation as the department considered necessary, and to this end it might, with the sanction of the local government, levy a special educational cess. (10) But the Local Government was also to share in the cost, the proportion to be met by local and provincial funds being prescribed by rules made by the Governor-General in Council.

This cautious measure, hedged round with all sorts of safeguards against too rapid an extension of the mass education under the principle of gratuitous and compulsory instruction, and purely permissive in its general conception, was nevertheless stoutly resisted. (1) To the upholders of the British rule in India it seemed a perilous experiment which would shake the foundation of British Government in India, if once the masses of India should become literate and should fall under the malevolent influence of the "Agitators." Mr. Gokhale might well reply to such critics that the stability of British rule in India rested more on the appreciation of its advantages than on the ignorant apprehensions of the illiterate masses. It is a curious irony of fate which has in the past exposed the Indian Publicist to the charge of not being anxious to secure, by his agitation, any but the interests of his class; and yet when the same publicist brings forth such measures as these he is accused of trying to undermine the foundations of British rule in India. Great as the advantages of the British Government to India may have been it would be asking too great a price for its maintenance if 99 % of our population is to remain for ever illiterate (2) And as regards the objection to the principle of compulsion, such as it was, on the ground that the field for voluntary effort was not exhausted and that India was not yet a fit country for such experiments, one need only say that without its aid the solution of the educational problem should be out of the question. The social customs of the people, particularly depressed classes and the women in general, make it inevitable to resort to compulsion in any scheme of universal education. Mr. Gokhale's moderation was indisputable when he suggested that the principle of compulsion should not be adopted all at once, but only when and where a certain proportion of school-going population was already at school, and where therefore it may reasonably be expected that further progress of education would be very much hastened by the adoption of compulsion. Besides, the poor Indian parents would have more than one temptation to keep their children from school as soon as there

would be the slightest chance of the children adding to the slender family budget by their earnings. If this natural but at the same time injurious parental cupidity was to be prevented from defeating the fundamental aims of national development it would be essential to insist on compulsion.

Objection of detail were urged against the Bill by the authorities who seem to specialise in the tactics of obstruction (a) The scarcity of efficient teachers as well as of good school buildings was considered to make it undesirable to extend the then prevailing system of primary education. Even granting the objection, the remedy is not to veto proposals for primary education, but to improve the quality of teachers, the character of buildings and apparatus. Besides, they misunderstood the object of the proposal who urged such objections. Primary education must be extended to banish illiteracy from the land. The quality of instruction, always important, begins to attract attention only when the country has obtained the necessary minimum of literacy. (b) So, too, the objection on the score of finance. The Government of India was committed to a heavy, and steadily growing expenditure on such a department as the Army running into 30 crores a year or more. Mr. Gokhale's Bill, if it had become law, would have involved an additional cost per annum at the rate of Rs. 5 per each pupil, i.e. for 85 lacs pupils as estimated by the official Educational Commissioner of the Government of India a little over 4 crores of Rupees. This additional cost was, according to the suggestion of the Bill, to be shared between the Government of India and the Local Bodies in proportion of 2 : 1, so that the net addition to the Government of India's Budget would be only Rs. 3 crores. Besides the Bill also provided that the whole of the cost was not be met all at once, but progressively in ten years, so that the progressive addition to the expenditure would be only 30 lacs, an amount easy to be covered by the normal increase of revenue, which was calculated to be a little over a crore a year. None of the arguments advanced against this Bill by the Obstructionist was so weak as this plea of increased expenditure. Mr. Gokhale did not descend to the obvious retort of "Tu Quoque". Aware of the official opposition, he had from the beginning left no grounds for attack from this quarter. No additional burdens were comtemplated, but if any had been, it is now easy to prove, with the experience of the war finance before us, that the whole of the 4 crores could have been met easily in a single year by a simple addition of 2 % to the Customs Tariff, or an addition of 10 % to the Income-Tax. There was no question, if it had been so decided, of the willingness of the community to bear additional taxation if it had been imposed for such an end.

In justice to the Government, it must be admitted that not all the objections to the Bill were of official origin. The Mohamedans were afraid that the provisions of such a Bill might work against the interest of their community, inasmuch as Mussalman boys under state schools might be obliged to learn non-Mussalman languages. Mr. Gokhle was aware of the sensitiveness of the Mohomedans in such matters, and he therefore offered concessions which

would have satisfied every reasonable Mohomedan. We need hardly mention the other puerile objections against the Bill on the ground of insisting upon fees the last from people whose income exceeded Rs. 10 a month, or on the ground that in an extremity the author of the Bill, rather than sacrifice the Bill on Financial ground, suggested the imposition of an education cess. It was an experiment, and could not therefore be expected to offer a complete and perfect system of national education.

In spite of an unanswerable case, in spite of the moderation which characterised it in every clauses, the Bill was lost in the Council chiefly on account of the opposition of the official majority. The only consolation that the Indian public has was the practical acceptance of Mr. Gokhale's principle by the Government in their resolution of 1913.

> "The proposition that illiteracy must be broken down, and that primary education has, in the present circumstances of India, a predominant claim upon public Funds, represents an accepted policy, no longer open to discussion. For financial and administrative reasons of decisive weight the Government of India has refused to accept the principle of compulsory education; but they desire the widest possible extension of primary education on a voluntary basis. As regards free elementary education, the time has not yet arrived when it is practical to dispense wholly with fees without injustice to the many village which are waiting for the provision of schools. The fees derived from those pupils who can pay them are now devoted to the maintenance and expansion of primary Education, and a total remission of fees would involve to a certain extent the more prolonged postponement of the provision of the schools in villages without them."

After thus recognising the principle that Indian opinion had accepted long ago Government have now surrendered their untenable position by permitting the Local Governments, Bombay taking the lead in 1918—to pass Bills making primary education compulsory under certain conditions in Municipalities and District Boards.

Being concerned in this work only with the financial aspect, we have not considered any of the other numerous problems of education in India. But as none of these problems is without the financial side, we may here append a very brief review of some of the most urgent questions affecting the general policy. It has been frequently urged, by Anglo-Indian public opinion more prominently, that education in India is top-heavy; that a disproportionate attention is paid to the secondary and University education; and that consequently an artificial abundance is created in the labour market in one particular kind of labour, which disappointed in its search for employment, joins the ranks of agitators. Agitators as such, cannot be condemned *ad hoc genus omne* since agitation is an indispensable requisite of social progress. But apart from this conclusion of Anglo-Indian critics of the educational organisation in India there is some truth in these allegations. According to the last Quinquennial Review of the progress of education in India (1912-17) as against the .024 % of the total population undergoing University Education in India, there was .054 % in England, and .014 % in Japan. If we leave out of consideration the female population, this is indeed a high proportion for such a country as India. Besides, if we compare the proportion of those receiving elementary education, this percentage of higher education seems

still higher Whereas in the U. S. A. 19.87 % of the total population was enrolled in the elementary schools, as compared with the 16.52 in England and Wales, and 13.07 % in Japan, in British India only 2.3 % was in the primary schools. This worked out that while in England and Wales out of every 30 students in the Elementary Schools only one can reach the University Standard, in India out of every dozen student one can expect to reach the highest standard. The proportion, as already observed, would be still greater if we consider only the male population. This is by itself a sufficiently serious state of things. But we must observe that admitting these statistics, the explanation is to be found in the absence of a good system of universal primary education. The class which now receives any education at all in India is a class which will continue to demand the highest education, speaking in general terms. To reduce the proportion, if it is considered advisable to do so, the best remedy would be an extension of the primary education, somewhat on the lines suggested by the late Mr. Gokhale.* Until that is done the education system of the present day will not prove successful.

Besides a proper organisation of primary education, the only other remedy of this congestion of higher education is to devise systems of mechanical, or technical education of a superior type. The opportunities for any high specialised education in India are notoriously inadequate. The Government has to recruit its special officers from abroad, apparently on the excuse that men of the requisite training are not to be had in India. The only way to reduce the pressure on Government departments, or a few select professions, for employment is to diversify the educational organisation by offering a rich choice of alternatives. The provision of higher scientific and mechanical education is not demanded merely in the interests of the Labour Market of India. The Indian Industries, as was found by the Industrial Commission which reported in 1918, suffer a serious handicap owing to the absence of expert guidance of a scientific or mechanical kind. In the general interests of the country at large, therefore, it becomes imperative to ask for a much wider extension of Scientific and Technical education †

In this work, we are not called upon to discuss the more academical questions such as those relating to the medium of Instruction; English versus Vernaculars, or those relating to the introduction of religious and moral instruction. But we must say more than a word in passing for education of women and for the instruction

* Commenting on the last quinquennial Review of the progress of Education in India, the Times of India, a moderate Anglo-Indian Paper observed :—" Had the Government been wise enough to avoid the cardinal error of opposing the late Mr. Gokhale's Bill, the real issue would not be obscured as they are to-day. Fortunately the mistake of the Government of India has been redressed, somewhat tardily, it must be admitted by several Local Government, headed by that of Bombay. It remains to be seen whether Local Bodies would avail themselves of the permission to introduce compulsion." (Leading Article. February, 1919).

† The following figures tell their own tale. In the last quinquennium the output of graduates was :—

Arts	17,892	or	65%	Agriculture	105	or	1·4%
Science	2,104	,,	7.6%	Engineering	284	,,	
Law	5.652	,,	20.6%	Teaching	539	,,	2%
Medicine	818	,,	3%	Commerce	26	,,	
				Total	27,420	,,	100%

More than $\frac{2}{3}$ of the total number was for Arts and Law. There are in round figures 50,000 pupils in different Arts Colleges in the country, costing 75·77 lakhs, while all professional Training institutions. including 12 Law Collegses cost Rs 38·94 lakhs. Unless this sum is materially, substantially increased. unless more institutions with better equipment are established, there will be no solution of our Labour problem, no alleviation of "agitation" no remedy for industrial regeneration.

of the Depressed Classes. Given Indian Social conditions, these two classes will continue to need for some time to come—special treatment. Government would have to abandon its traditional policy of non-interference if the interests of the country are not for ever to be damaged. And any special treatment of these classes will involve unavoidably considerable strain on the Public Purse. To meet this expenditure special taxation may have to be resorted to, but we think, if the revenue changes suggested by us in the section dealing with the Revenues of India, are adopted, no diffic[illegible] of a financial kind would be experienced. The present proportion of wo[illegible]s follows :—

Table showing proportion of [illegible]men to men in Education.

Institutions.	Women.	Men.	Cost of 2.	Cost of 3.
			Rs.	Rs.
Arts Colleges	915	49,815	1,11,17,222	8,07,31,908
Professional Colleges	188	12,912		
Secondary Schools	108,899	1,103,234		
Primary Schools	1,119,871	4,821,611		
Special Schools	10,661	110,457		
Private institutions	72,894	525,020		
Total ..	'597,914	7,936,577		

Only 3·25% of the total population and 1·10% of the female population finds instruction in India. Assuming Mr. Gokhale's proportion of 15% as representing the population of a school going age in a country, the numbers of female pupils will have to be increased to seven times its present proportion, and that of male pupils to three times before India can be said to have obtained a necessary minimum of education. Assuming further that the whole of this increase showed itself financially in the stage of primary instruction only, the addition to the total Education Budget will be 7 crores in the case of institutions for girls only, and 9 crores for those for boys, or a minimum increase of 16 crores over the present Budget figures. Allowing for the fact that education of women is complicated in many provinces by the existence of the Purdah and that consequently female teachers at relatively much higher pay must be employed, the increase may even run to Rs. 20 crores before a decent system of universal instruction is established in India.

We have no desire to stress, what the official figures make only too painfully prominent, the disproportionately large sums spent by the Government of this country on the instruction of the European and Anglo-Indian Communities in India. For about 50,000 European pupils in all stages of instruction, the total outlay, direct and indirect, amounted to Rs. 110.49 lakhs or about Rs. 221 a head of which Rs. 39.40 lakhs came from fees and Rs. 4.75 lakhs from endowments, leaving a net charge on public funds of Rs. 66.35 lakhs. If it does not seem

advisable to reduce this expenditure we would yet suggest that the sense of unequal treatment will not disappear unless the authorities add proportionately to the outlay on the instruction of the Indian public at large.

As calculated below our minimum educational requirements, giving effect to the most urgent of these suggestions, will be Rs. 40 crores a year, including the interest charges on an Education Loan that will have to be raised to meet the initial cost of new buildings, apparatus and equipment for schools, colleges and laboratories of something like 20 crores.

The total educational expenditure wos whiamount to Rs. 40 crores distri buted as follows :—

	Rs. (Lakhs)	Against the present.
Primary Education	2,000·00	353·25
Secondary Education	800·00	366·71
University Education	200·00	119·75
Superior Technical Education	150·00	38·94
Special Schools	150·00	50·01
Training ,,	75·00	33·75
Inspection and Direction	75·00	62·43
Scholarships	100·00	24·08
Buildings	250·00	141·79
Miscellaneous	200·30	107·86
Total	4000·00	1298·63

CHAPTER V.

B. EXPENDITURE ON MATERIAL DEVELOPMENT.

1. Railways.
2. Irrigation Works.
3. Civil Buildings.
4. Post and Telegraphs.
5. Famine relief.
6. Agriculture.
7. Mint charges.
8. Ports and Pilotage.

As already noticed the items included under this group are 8 :—Of these the first two are now more important as sources of public revenue than as those of expenditure, and so it would be better to discuss them under the Chapters dealing with the Revenues of the Government of India. The Posts and Telegraphs, though a source of considerable revenue, are nevertheless not intended in India primarily as revenue yielding Departments. It would consequently be more fitting to discuss them as a charge rather than as an income, Similarly also Civil Buildings, including the charges for the construction of the new Capital, the Mint charges proper and the charges in connection with Ports and Pilotage are relatively of second rate importance.

The most important item of expenditure under this group then is that connected with **Famine Relief and Agriculture**. The actual expenditure incurred for the relief of Famine is luckily not a recurring charge. Nor can we quite describe it as a charge for the material development of India taking that expression in its narrow sense. It is more protective than developmental; preventive than constructive. But owing to the standardisation of the charge, and considering its importance in the Indian Financial system, it would not be inappropriate to consider it under this group, even if we make no allowance for the help the Famine Relief Fund has rendered to such unquestionably developmental items of expenditure as Railways and Irrigation Works.

XXVIII. FAMINE RELIEF.

The general principles governing Famine Relief will be best evidenced by a brief historical account of the evolution of the present policy in that respect. Without going into the details of history we may show the frequency and intensity of the famines in the last two generations by the subjoined table :—

Table showing the Intensity and Frequency of Famines in India.

Date.	Locality.	Area in sq. miles.	Population. effected	Expenditure (direct. Rs.
1860-61	Punjab Rajputana U. P.			
1862	Deccan.			
1866-67	Orissa-Behar Ganjam Hyderabad Mysore ..	180,000	47,500,000	1,45,00,000
1868-70	Punjab Gujrat Central Provinces Deccan Rajputana			
1873-74	Bengal Behar Bundelkhand ..		17,000,000	6,75,85,330
1876-78	Madras Bombay Mysore Kashmere U. P. Hyderabad	250,000	58,500,000	8,00,00,000
1888-89	Gujarat Orissa (Native States)			
1896-97	U. P. Bengal Bombay Berar Hyderabad C. P. Madras Delhi Rajputana	307,000	69,500,000	10,25,00,000
1899-00	C.P. Bombay Berar Hyderabad Baroda Rajputana Gujarat Kathiawar	475,000	80,000,000	£6,670,000 Relief. £1,585,000 Loans. £1,333,000 Remissions. £1,800,000 Loans to Native States.
1906-07	Durbhanga U. P.			£11,388,000 *
1913-14	United Provinces			
1918-19	Indian Empire			Rs. 3,16,00,000 (?)

* The true idea of the cost of famines is not to be gained merely by giving the figures of direct expenditure on Relief in a Famine year. So far as the Government are concerned they lose a considerable portion of their Land Revenue owing to failure of crops. There is besides expenditure from charitable funds and loans and the expenditure in the Native States. The total expenditure of such a famine as that of 1899-1900 we estimate at Rs. 20 crores in round figure.

It would add unnecessarily to the bulk of this work were we to go into the details of the famines in each of the above instances or even to attempt an analysis of the public policy in each instance.* We shall discuss the history and expenditure under two main divisions. The period before the great Famine of 1873-4 and the period thereafter : The reason for the division is that at the date selected for division emerges the first glimpse of the principles now accepted to be the most salutary in Famine Relief, and thereupon is built up the modern system of relief.

Taking these two periods in their chronological order we find that in the years before 1877 the Relief of Famine was not governed by any settled predetermined principles. Each famine was fought when it occurred on independent lines. It is true that the Report of Colonel Baird Smith who investigated into the causes of the Famine in 1862 did make some suggestions for a regular Famine Relief Policy, which with very little variations could be applied in any emergency. But the absence of proper adequate means of communications combined with the ignorance and sometimes indifference of Government Officers led to heavy mortality and suffering as the result of the earlier famines. And when the toll of the dead attracted the attention of the Government they quite naturally ran to the other extreme of saving human life irrespective of the cost. The Famine of 1873-74 for example was distinguished by the lavish scale on which relief operations were organised by Sir R. Temple who considered no cost too heavy if human life was to be saved. The Government of India could not for ever be regardless of their Exchequer, And in the very next Famine they suggested that the task of saving life irrespective of expenditure was beyond their ability. But the task which the Government of India seem to have set themselves in combating famine was still the same.—saving life, not, indeed, irrespective of cost, but so far as lay within their power. They continued to import food in the famine-stricken districts, to dole out rations, either freely as in the case of Purda women, or in exchange for relatively inefficient labour or unproductive relief works. In the next great famine—the last in the period before the evolution of a definite policy—Sir R. Temple continued in the South his old campaign of life-saving regardless of cost in spite of the explicit instructions of the Government of India to the contrary. 700 million units were relieved at a total cost of Rs. 8 crores to the Government on the rather liberal allowance of 1 lb of food per day to each individual seeking relief. But in spite of this the mortality directly traceable to famine amounted to 5,250,000 souls.

Finding the task of saving life independent of the considerations of cost absolutely beyond their powers, the Government of India began to consider more definite steps for a permanent policy of Famine Relief. Calculating that the total cost of Famine Relief to the Government during a period of ten years preceding 1877-78 had amounted to Rs. 15 crores, Sir J. Strachey, the then Finance Minister,

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* The excellent monograph of Mr. Loveday on Indian Famines may be mentioned here as supplying some interesting information in a handy form.

(a) Sir John and Richard Strachey-Finances and Public works of India.

proposed that an annual excess of Rs. 1·5 crores must be secured in the revenues over the amount required for normal expenditure; so that when the famine did occur Government should have sufficient surplus funds to meet the expenditure.

> "The Government in 1877 came to the conclusion that the ordinary income and expenditure of the State might at that time be considered to be .. . . .in a state of *equilibrium*. It was theretore in the opinion of the Government accessary to improve the financial position by £1,500,000 a year on account of famine liabilities alone." (a)

Though famine would not occur every year it was thought advisable to provide this surplus as against a recurring liability. But the disposal of this fund during the years that famine did not occur occasioned some criticism at the inception of the Fund, and considerable difference of opinion later on. It would be clearly unwise annually to accumulate the sum in the Treasury; not only because it would seem to be taxing people beyond the requirements of the State and losing interest on a considerable sum lying idle in the Treasury, but also because it would offer an unfair temptation to the executive to outrun their income by wasteful or injudicious expenditure. On the other hand direct famine relief in normal years would be unnecessary. If the proposed fund was to serve the object of its authors it must be employed as soon as it was being formed.* It was ultimately decided to employ the fund to (a) Famine Relief in any year and in any part where there was actual scarcity; (b) the construction of Protective Works like Irrigation Canals or Railways, which, without being directly remunerative, would yet be of immense service in raising or transporting food-stuffs in famine-stricken areas.

Since its institution the Famine Relief Fund has not invariably been maintained at the figure originally fixed Rs. 1½ crores of £1½ million. In years like those of 1887-88 the grant was practically suspended; and more frequently

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* As there has been some difference of opinion regarding the objects of the Fund and its employment the following extracts from contemporary pronouncements by competent authorities may be usefully cited.

" The first claim on those receipts (from additional taxation imposed in 1877-78) being that of the Home Government for the repayment of debt already incurred on account of famine I am of opinion that not less than one half, or say £750,000, should be held available for remittance to England in the next ensuing years on that account. The remainder may be appropriated at your discretion to the extinction of debt. to the relief of famine, or to the construction of protective works not necessarily remunerative but obviously productive in the sense of guarding against a probable future outlay in the relief of population."

(Final orders of Secretary of State quoted in Strachey. cit. op. p. 191.)

"It was determined that this surplus should not take the form of a fund specially allocated to meet the cost of Famine Relief, because such an arrangement would be financially inconvenient and objectionable. The intention was simply that a source of revenue should be provided which would enable the Government to carry out the principle on which it had for some years insisted that relief of famie distress should be regarded as a charge constantly liable to recur, which must be met, like all other obligatory items of State expenditure. The money obtained, or so much of the £1 million as remained after meeting charges for Famine during the current year, was to be applied to the discharge of debt or the prosecution of remunerative Public works of a character likely to give protection to the country against the effects of drought."

(Famine commission Report 1881 Part I, para 100).

" The object therefore of this Famine Insurance Fund was, by increasing the revenue, to avoid the constant additions to the debt of India which the prevention of periodical famines would entail by either applying that increase of income to works likely to avert famine and thus obviate famine expenditure, or by reducing annually the debt contracted for famine, so that if famine expenditure should again become inevitable, the reduction of debt made in years of prosperity would compensate for liabilities incurred during scarcity."

(Report Par. committee on Public works in India 1879).

reduced. The following table shows the total amount spent and the various directions in which it was spent:—

Year.		Famine Relief.	Extinction of Debt.	Protective Railways.	Irrigation works.	Total.
		£	£	£	£	£
1880-81	..	34,840	..	..	..	34,840
1881-82	..	34,883	715,151	682,403	135,449	1,567,886
1882-83	..	22,103	1,343,555	133,129	263,443	1,495,972
1883-84	..	9,205	581,137	649,248	283,223	1,522,813
1884-85	..	7,350	341,504	946,457	253,046	1,548,357
		Rs.	Rs.	Rs.	Rs.	Rs.
1885-86	..	40,695	682,498	589,000	186,807	1,499,000
1886-87	..	10,410	..	200,000	107,979	3,18,389
1887-88	..	402	..	..	91,006	91,408
1888-89	..	7,799	..	..	81,537	88,336
1889-90	..	68,288	460,255	..	71,452	6,00,000
1890-91	..	5,579	520,029	..	..	6,00,000
1891-92	..	23,423	682,170	484,795	74,392	12,68,319
1892-93	..	70,841	..	984,769	77,931	11,16,103
1893-94	..	496	..	1,060,951	60,793	11,17,801
1894-95	..	10,258	..	556,867	56,351	6,10,235
1895-96	..	18,301	..	529,867	43,110	5,86,485
1896-97	..	20,79,525	..	..	38,317	21,26,355
1897-98	..	53,25,608	..	..	46,830	53,63,125
1898-99	..	40,054	445,238	690,353	37,517	11,87,314
		£	£	£	£	£
1899-00	..	2,074,918	..	..	11,669	2,098,848
					23,930	..
1900-01	..	4,125,230	..	..	31,114	4,156,344
1901-02	..	529,181	284,638	..	70,693	884,512
1902-03	..	321,509	564,700	1,625	94,742	982,576
1903-04	..	20,351	644,278	96,605	144,446	905,680
1904-05	..	2,078	667,097	115,812	215,013	1,000,000
1905-06	..	135,887	512,262	55,278	296,573	1,000,000
1906-07	..	307,715	332,383	3,442	356,460	1,000,000
1907-08	..	622,262	250,000	6,661	403,999	1,282,822
1908-09	..	992,079	250,000	70	394,175	1,636,324
1909-10	..	79,758	475,338	12,015	420,377	987,480
1910-11	..	2,336	601,095	26,731	351,412	981,574
1911-12	..	114,293	457,967	29,179	378,881	980,329
1912-13	..	188,885	343,203	27,399	419,166	978,653
1913-14	..	157,511	342,489	7,835	475,267	983,102
1914-15	..	279,885	220,115	1,311	483,075	981,764

The Policy of making the actual relief of Famine when it does occur the first charge on the special grant is, as is evident from these figures, maintained even now. But since the Report of the commission of 1902 Government has begun more and more to rely on moral force, on putting heart in the people to enable them the better to fight famine. To this end a more liberal policy of suspending the Land Revenue demand in times of scarcity or remitting the demand altogether has been adopted along with the system of granting more freely the Takavi loans. But the system of more direct, more material relief is not abandoned. An elaborate machinery has been developed in every province to afford relief. The Govern ment of India is kept informed of the state of crops and mortality in every province; a programme of Relief Works is kept ready and uptodate in every district; and the whole country is divided into relief circles, each equipped with plant, and tools for the relief works, which may thus be started at any moment. Test works are opened as soon as it is clear that moral force would not alone suffice to meet distress; and if labour in sufficient quantities is attracted, these are converted into proper Relief Works in accordance with the Programme already framed and approved. While Poor-Houses and gratuitous relief afford help to those unable to work, special measures are adopted to aid those unwilling to admit their poverty by a resort to the Relief Works. On the setting in of the next monsoon, people on the large works are removed to the smaller works near their villages and farms; they then return to their normal occupation, with further assistance in the shape of loans to buy cattle, ploughs, seeds, etc. As soon as the next good harvest is assured the few remaining works are closed and gratuitous relief stopped. Along with the Relief operations, a special medical machinery to deal with the usual concomitants of famine—cholera and malaria—is kept in readiness.*

Any criticism of the Famine Relief Policy would be ineffectual without understanding the causes of Famine. We may divide the causes of famine in India into three main groups, taking "Famine" to mean a shortage of food-supply. **First** come those natural causes which, like the irregular, uneven or uncertain distribution of rainfall, make famines in India appear to be peculiarly beyond the wit of man. In the **second** group, we may include such causes as are products of the existing social and economic organisation of India. The Land Revenue policy of the Government of India, for example, was contended by the late Mr. R. C. Datt, to be the most important cause of distress during times of famines.† The minute division of land in India, or the extreme indebtedness of the people may also be instanced in the same connection. The **third** group comprises the influences which are the special offspring of a period of economic transition, through which India is undoubtedly passing now‡ Unless each of these causes is properly understood, there can be no effective, or permanent cure of the periodical shortage of rains, and the consequent distress in India.

* No report is yet available as to the efficacy of this system in the last great famine of 1918-19.
† See perticularly Dutt's "Open letters to Lord Curzon" 1900.
‡ Cp. Theodore Morrison's "Economic Transition in India" for a discussion of the effects of a similar transition in England in the last century.

I. The relief of famine, when it occurs, will be successful only in proportion as these root causes of the misfortune are reached. The belief, once common, that famines were natural calamities against which human efforts would be of no avail is now impossible to sustain. (1) The most obvious and immediate cause of famine, the failure of the periodical rains, is capable of an easy remedy by means of artificial water-supply by wells, tanks, or irrigation canals. We have discussed, in the section dealing with irrigations revenues, the relation of such works to the relief of famine. It would suffice to mention here that taken collectively, the Irrigation Works of India have resulted invariably in a net profit to the Government, besides protecting several millions of acres from the effects of drought.* This satisfactory result has not unnaturally been claimed to be due to the conservative, cautious policy of the Government. But to those who are impressed by the horrors of such a famine as that of 1899-1900, to those who consider the immense losses of human beings, of crops, of capital which have been avoided by the irrigation works, such a policy cannot but seem to err unduly on the side of prudence. Even at the risk of some loss to the State, the money spent on unproductive irrigation works may well be regarded as an insurance premium properly laid out against a very probable calamity. Though the physical conditions in certain parts of India, like the uplands of the Deccan, do not admit of any easy river irrigation, they are by no means equally unsuitable to irrigation by tanks or wells. It is, therefore, not a hopeless hope that every cultivator in India may be effectually guaranteed against one season of inadequate rains by a more liberal expenditure on Irrigation Works of every kind. The accepted policy of the Government of India had led them to spend without stint on costly and often unprofitable railways, while the irrigation projects had to satisfy the stringest tests of commercial advisability before they could be sanctioned. It is true, indeed, that both irrigation works and railways would be necessary for protection against famine. It may also be admitted that in normal times the railways would be indispensable for carrying the surplus produce raised by the irrigation works to the most profitable markets. Unless, the cultivator is in a position to dispose of his crops with profit, he would not be able to meet the extra cost of the irrigation works, whether it takes the form of a government Water Rate, or of the expense of maintaining and repairing a well or a tank. And finally, it may also be conceded that in proportion as the cost of construction of railways is higher than that of irrigation works, the relative annual outlay on the railways is bound to be greater than that of irrigation works.† But the main objection of the Indian Public opinion to the railway policy of the Government is that Railway projects have not only been preferred in the past to Irrigation Works, but that they have been preferred at the cost of the latter.

* These works now protect some 15 million acres, have cost the State about 40 million sterling, and yield a net income exceeding 7 % on the total capital outlay.

† For a good scientific discussion of this question of railways vs. irrigation works see Loveday Indian Famines.

II. Besides this obvious cause of famines, there are others less obvious, but not the less effective. The remedies for these more hidden causes must be drastic enough if India is to have a complete, scientific scheme of famine Insurance. (a) The late Mr. R. C. Dutt's many economic writings strongly express the prevalent belief in India that famines are the inevitable result of the Land Revenue Policy adoptedbythe present Government of India outside Bengal, and parts of the United Provinces and Madras Presidency. The section of this work dealing with Land Revenue contains a discussion of this question. Here we need only mention that owing—it is believed—to a heavy revenue demand, which is periodically enhanced, the cultivator has no reserve of surplus produce or capital left to fall back upon in times of scarcity. The dearth of capital amongst Indian cultivators is a fact universally admitted though its origin has been variously explained. Whatever the reason, the absence of a reserve fund in the classes directly affected by failure of rains cannot but intensify the sufferings of the people. The Institution of Co-operative Credit or the grant of Takavi loans are palliatives not remedies. The relief of indebtedness among the agriculturists is rendered all the more difficult by the absence of any data to calculate the exact amount of that indebtedness. The situation is, indeed, tragic enough to demand heroic remedies eventually; and it would not surprise us if a future financier undertakes a scheme of wholesale land purchase by the State, with a view to its regrant after all agriculturists' debt of more than 20 years' standing, or less than 5 years' produce value of each holding, whichever is greater, are cancelled. As it is, we can only suggest two prosaic—not remedies, but,—reforms which would mitigate the intensity of the existing situation, and prepare the way for more heroic measures of radical reform.

(x) All debts contracted by agriculturists in future must be registered on pain of being declared illegal. This would show us, in course of time, the exact amount of indebtedness of the agriculturists, and also the burden of the debt. (y) The establishment of a Land Bank in each Province by the State would give a mobility to landed wealth which is now the one great defect of that property in India. The Co-operative movement, after 15 years of universal encouragement, must, from this stand point, now be declared to have proved a failure. It has failed in India as much for want of sufficient capital, as owing to the inability of the co-operators to manage their concerns. With a Land Bank of the type of the *credit Foncier* of France or of Germany studiously fostered, we may expect an accumulation and investment of capital in land, without which land improvement will be impossible, and resistance of the cultivator in times of famine unthinkable.

III. The absolute want of food and consequently heavy mortality, which was such a heart-rending feature of the earlier famines, now no longer occurs. The rapid extension of railways at any cost may be traced directly to this horror of absolute starvation for want of food supplies. But the railways do not—and cannot—prevent that want of employment which invariably results in a famine. The one great occupation of the people is necessarily suspended owing to the failure

of rains; and, thanks to the free competition of the machine made goods of England, the profitable bye-employments of weaving—which helped so much to mitigate the intensity of the old famines—are also destroyed. It is the realisation of this growing want of staying power that has made many an Indian publicist declare in his impatience that famines are the direct results of British Rules in India as in Ireland. Historically the proposition is absurd.* But it can safely be laid down that owing to a conjuncture of circumstances,—for which it is almost impossible to hold any individual statesman responsible—the British rule in India has synchronised with the increasing inability of the people to tide over a single bad season. And the tragedy seems to be all the more harrowing when we consider the means that the earlier Rulers of India had at their disposal to relieve the stress and those which the modern Government can command, and when we compare their relative success. The famines in India will, perhaps, never lose their tragic aspect as long as means are not adopted to give the people the staying power in which they are so deficient; and this would not be realised until the heavy load of debt which oppresses the small cultivator is removed or relieved; the State demand of Land Revenue—at least in the temporarily settled districts where the State deals directly with the cultivator—is made conformable to the principle of equity in the distribution of the tax burdens, and exemption from the State demand of those agriculturists whose net produce is below the bare minimum of existence; the average holding is made of a size and extent suitable to admit of economic farming. **To achieve these an agrarian revolution of the widest dimensions is inevitable.** But we cannot expect the present Indian Government—nor even its Indian substitute with only a change in personnel but no change in spirit—to undertake such farreaching, fundamental charges.

A redistribution of land, a wholesale repudiation of agrarian indebtedness, an entire re-casting of the Land Revenue Policy with all that it implies—will all combined mean a revolution the very conception of the magnitude, the equity, the economic necessity of which we must dispair of our present Government—or its Indian desciples—ever being able even to entertain.

We conclude, then, that even if it be not possible, humanly-speaking to abolish famines altogether, the state in India has still a reserve of untried or imperfectly attempted resources which can reduce the frequency and alliviate the intensity of famines. For the rest, it is a matter of time. The industrial transition, when accomplished, would by itself render famines much less burdensome than they are now.

The details of the existing policy of Famine Relief afford very little occasion for unfavourable criticism. It is true, indeed, that relief, as it is now granted, has not a faint suspicion of charity, from accepting which the better minded of

* For a list of all the known famines in India, see Loveday, Cp. Cit. Appendix. Of course only the better known famines affecting very large tracts of the country, are included. The great famine towards the close of the reign of the first Maurya Emperor—Chandragupta—is alleged to have lasted twelve years, and is supposed to have been the direct cause of the colonisation of the southern plateau by the Aryan people of the North. Akbar'o reign is also noted for the occurrence of two or three famines of serious intensity. Cp, Vincent Smith, "Akbar" and Moreland "India at the death of Akbar."

the suffering people most naturally shrink. The aid afforded them by private charity is irregular, inadequate, unreliable. It would, doubtless, be a most regretable waste of national resources if these better kind of people were suffered to die through a sense of pride which would not allow them to accept what really is their right as citizens. **It is, therefore, absolutely necessary that famine relief should be declared and accorded as a simple right of Indian Citizenship.** There are corresponding burdens, in so far as Government levies additional taxation, in normal times for this purpose. That the people may the better realise this right and its burdens, it would be advisable to raise the special revenue more directly from the people most likely to be primarily affected by the distress. Additional burdens on this the poorest section of the population would not, indeed, be lightly recommended. But we feel that a sense of having themselves contributed, in however small a proportion, is so material in breaking down this sense of pride that we have no hesitation in making the suggestion, to be realised, if necessary, by a readjustment of the tax-burdens in other directions so that there should not in the aggregate be any unfavourable change. For the same end of a more equitable participation in the relief afforded by the State, we would also suggest that the task of administering it be made over wholly to the local authorities, the Supreme Government retaining the right of a general supervision and occasional contributions in cases of exceptional hardship.

XIX. AGRICULTURE.

As closely connected with the expenditure on Famine Relief we may notice, next, the outlay on the Agriculture Department. The present department has a history of less than 15 years. Prior to 1905 the Government of India had, under official control, a number of experimental farms, but the work of the then existing Agriculture Department consisted chiefly in the simplification of the Revenue Settlement Precedure and the improvement of the Land Records system. The Imperial Agricultural Department was organised in 1901;* an Inspector-General was appointed in 1903, the establishment of the Agricultural Research Institute and College at Pusa led to further expansion, and in 1905 the Government of India decided to allot annually £133,000† for agricultural experiments, research and instruction. Government intended, by this outlay, ultimately to establish in each large homogeneous tract of the country an experimental farm, supplemented by the numerous small demonstrations farms; to create an Agricultural College in each of the larger provinces, and to collect an expert staff to run the colleges, to conduct research and, generally, to help develope the agricultural resources of India.

At the present time, the work of the Agriculture Department consists partly in experiment and research leading to improved methods of raising crops, or fighting agricultural pests. Besides this, the department helps to introduce in the

* This post was abolished in 1911-12.

† This grant was to be shared with the Civil Veterinary Department.

methods of the Indian cultivator ascertained improvements by demonstration. We need but mention the instance of cotton, the improvement of which has from the first attracted successfully the attention of the department. New agricultural implements and machinery, suited to the local conditions, have also been popularised as the result of the departmental activity. Information as to progress in agricultural matters abroad is regularly disseminated by the department, and attempts are made, by a concentrated study of local conditions, to obviate local difficulties as far as possible.

The charges noted in the margin show the growth of the department and its activities. At the beginning of the century the total charges on agriculture amounted to £10,479 including figures of the "Local" Expenditure, which have been excluded from the figure of the later years. In a country so largely dependent on agriculture for its national wealth as India, this outlay cannot be too highly commended. The absence of a rich land-lord class, the irgnorance of the agricultural classes at large, the excessive sub-division of land—all combine to keep Indian agriculture bereft of the benefits of modern sciences, of modern mechanical improvements. The total national income of India, estimated at about £600 millions in 1914,† is made up of more than 450 millions of agricultural produce.‡ To develope this wealth cannot but be of the highest concern to an intelligent, sympathetic, national Government. Of the total area of over 600 million acres, available for agriculture in India, only about 215 millions or a third is actually cropped; and though nearly 230 millions acres are covered by Forests or other uncultivable areas, there is yet 1/3 of the total land available for agriculture remaining uncultivated in India.§ To bring this land into cultivation would require capital and other resources which the ordinary Indian, cultivator cannot command without the aid of the State. Additional outlay then on Agriculture in India would, if undertaken, more than repay itself by adding to the wealth of the country, if only it is properly distributed.

Year	£.*
1907-08	302,748
1908-09	341,873
1909-10	393,523
1910-11	390,113
1911-12	441,900
1912-13	467,507
1913-14	534,939
1914-15	566,185
1915-16	597,501
1916-17	611,615
1917-18	702·133
1918-19	823,102
1919-20	959,000
1920-21	1,315,200

XXX. EXPENDITURE ON POSTS AND TELEGRAPHS.

Unlike the English model, the Post Office in India has never been worked as a great revenue Department in India. Taking into consideration the poverty of the Indian people, the Government of this country takes a legitimate pride in

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* These figures do not include expenditure on cinchona plantations, Botanical Gardens, or buildings. The total expenditure is distributed as follows:—(1914-15).

Agriculture	Rs. 54,08,566	Against these charges must be set off. receipts amounting to £ 63,217.
Veterinary	,, 22,13,249	
Co-operative Society	,, 8,31,489	

† See an article by Sir G. Paish in the Journal of the Royal Statistical Society, July 1914.
‡ Cp. Dutta's Report on Prices in India, 1912.
§ For these figures, see the Agricultural Statistics of India.

performing certain very common postal services at the lowest cost to the people.* Though the postal receipts in the last few years have regularly exceeded the corresponding expenditure, the policy has been consistently followed of applying the excess, if any, to the improvement of the department. The sub-joined table show the constant improvement.

Year.	Receipts.	Charges	Plus or
	£	£	£
1899-00	1,308,315	1,086,258	122,157
1900-01	1,357.156	1,124,894	232,262
1901-02	1,353,789	1,185,547	198,262
1902-03	1,429,935	1,246,863	163,072
1903-04	1,507,153	1.298,530	208,623
1904-05	1.575.980	1,366,779	209.201
1905-06	1,651,477	1,454,602	196,875
1906-07	1,751.146	1.540,247	210,899
1907-08†	2,830,796	2,565.745	265,051
1908-09	2.803.717	2.721,349	82,368
1909-10	2,830,080	2,753,802	76,278
1910-11	2,994,081	2,742,045	252,036
1911-12	3.221,701	2,863,815	357,889
1912-13	3,434,560	2,894,388	542,172
1913-14	3.598,519	3,005.156	593,363
1914-15	3.596,973	3,048,115	548,858
1915-16	3,787,478	3,149,680	637,798
1916-17	4,174,607	3.441.387	733,220
1917-18	4,616.619	3,567,730	1,048.960
1918-19 ..	5,342,967	3,974,951	1,368,013
1919-20	5,996,800	4,725,300	1,271,500
1920-21	6.184,200	6,073,500	110,700 ‡

This account, however, of the Postal expenditure is incomplete. Non-effective charges, like pensions and rent of buildings, are either not included, or charged to other departments like the P. W. D. But this complaint is common throughout the financial organisation in India.

Before 1883, the Indian Telegraph Department was kept strictly separate from the Post Office. In that year arrangements were made to make certain Post Offices also serve as Telegraph offices. The beginning of a union thus made was further considered in 1905, and the accounts, as noted above, began to be shown .

* The rates of carriage of the following Postal Articles are in India, in the United Kingdom, in France as follows:—

	India	United Kingdom.	France.	U. S. A.
Post Cards	¼ anna			
Letters Oz.	½ anna	½ d.=½ anna	5 c=½ anna	
Letters over ½	anna	1 d=1 anna	10 c=1 anna.	

† The figures are since 1907-08 are for Post Office and Telegraphs combined, while the previous figures are for the Post Office exclusively.

‡ The falling off in the surplus for the latest year under review is due to the recommendations of the hazeltine committee which led to large increases in the pay, &c. of the postal staff.

as one item since 1907-08. In 1910 the two departments were reorganised, and their circles were made co-terminous. From April 1912 the Director-General of the Post Office was also made the Director-General of Telegraphs, and the experiment has since been completed in the fusion of the two departments into one Since 1906 the entire Postal service, including the Telegraphs, has been maintained at the cost of the Imperial Revenue, the administrator of the old district Postal arrangements, originally vested in district officers, being now entrusted to local Postal authorities.*

The Indian Telegraphs Department, in spite of a very rapid growth of the business in the present century, has not yet shown financial results which could be compared to the Postal Department. The table in the margin shows its development. But in considering the net financial results of the Indian Telegraphs Department, it must be observed that (a) a part of the income of the Department is absorbed by the Railways which despatch a number of public telegrams. The Telegraphs department has not the monopoly of the Postal Department. (b) Besides, the expenditure on telegraphs includes building and stationery charges, as also the non-effective charges of pensions etc. On the other hand (c) the Telegraph Department account for a considerable amount of capital outlay, which amounted. from 1851 to 1911-12 to £7,639,000; but in considering the profits of the department no allowance was made until 1918-19 for the interest on this capital which, at 4 % would account for more than £300,000. In 1919-20 Interest on capital outlay was debited for the first time against the revenues of the Telegraph department and amounted to Rs. 54 lakhs, while the capital outlay at the end of the year amounted to Rs. 14,67,68,805 † Similarly (d) the annual charges of construction, though

Year.	Receipts. £	Charges. £	Net result plus or minus. £
1861-62	73,452	358,223	—284,771
1875-76	309,040	490,624	—181,584
1895-96	1,085,940	897,853	183,087
1905-06	939,854	1,076,489	—166,635
1919-20	2,515,323	1,443,779	1,071,544

* The operations of the Imperial Post Office also include those of all the Native States that had no such arrangements of their own, as well as to those, who, like Kashmere, Baroda and Mysore, have surrenderd their independent organisation.

† Table analysing the receipts and charges of the Telegraph Dept. 1919-20.

Receipts	Rs.
Sale of stamps for Message	2,81,84,295
State and River Message Revenue	81,99,566
Other Telegraph Revenue	2,19,015
Rent of wires from Rlys.	31,42,070
Rent of Telephones	13,51,489
Royalties from Telephone Co.	1,53,235
Recovery from Guarantors	46,220
Sale of books, forms, maps, &c.	25,943
Miscellaneous	172,229
Adjustments	31,95,594

Payments.	Rs.
Payments to Telegraph Co.	72,39,802
Control	7,33,250
Account and Audit Office	3,49,035
Presidency and District charges.	1,01,88,057
Stationery and Printing	6,71,295
Store and workshop charges	1,07,496*?
Maintenance of Lines	30,56,540
Adjustment for Repairs, Pension Leave &c	13,38,524
Interest	54,16,619
Total	2,89,06,566

Capital outlay on Indian Telegraphs,

Year.	£
1899-00	158,105
1904-05	250,500
1909-10	150,770
1914-15	191,047

regarded as a capital outlay, are included in the ordinary revenue and expenditure account. If we add the interest on the capital outlay in connection with the telegraph service, the surplus shown in the combined account of the Post Office and Telegraphs will be substantially reduced in the later years.

The Post Office and Telegraph render very considerable services to the Government, the financial measure of which is to be found in the amount of service stamps and state messages, included in the revenue side of the account, which amounted as follows:—

Year.	Service Stamps Rs.
1899 00	27,82,526
1904-05	31,70,603
1909-10	46,08,522
1914-15	62,93,469
1919-20	94,79,008

These payments by the state are only cross entries in the public books of account. If these receipts were excluded from the account, there would be a distinct deficit in the Indian Post Office and Telegraphs Budget.

As regards the other business, besides conveying letters and parcels. conducted by the Post Office, we need mention only the **Savings Banks** and the system of Money Orders and Value Payable Parcels service. Government Saving Banks were established in the Presidency Towns as early as 1833, and in the districts in 1870. The Post Office opened such Banks in 1882-83, and took over the Districts Savings Banks in 1886 and the Presidency Savings Bank in 1896. The number of depositors has steadily grown till they now are in the neighbourhood of 1·5 million persons, while the deposits reach £ 15 millions. Interest was allowed on all deposits upto 1905 at $3\frac{1}{2}$ per cent per annum and since that date at 3 %. The attempt made in that year to attract fixed deposits at a slightly higher rate of interest proved abortive, and was discontinued in 1911. During the war the desire to popularise the various public loans has led to a further development of the banking facilities afforded by the post office in India, which will be more particularly noticed in the section dealing with the public debt of India.

Year.	£
1883	280,000
1901-02	7,121,415
1902-03	7,614,369
1903-04	8,222,448
1904-05	8,938,008
1905-06	9,328,417
1906-07	9,844,653
1907-08	10,120,956
1908-09	10,156,101
1909-10	10,578,119
1910-11	11,279,215
1911-12	12,599,029
1912-13	13,741,000
1913-14	15,445,000
1914-15	9,928,000
1915-16	10,214,000
1916-17	11,063,600
1917-18	11,056,400
1918-19	12,548,350
1919-20	14,232,308

The **Money-Order** system, like the savings banks, is an immitation of the English practice. It is confined to the remittance of money from one place to another at a charge of Re. 1 per 100, a charge far in excess of the banker's commission for inland remittances, wherever proper banking facilities are available in India. In 1919-20 nearly 39 million Money Orders were issued, remitting $870\frac{1}{2}$ lakhs of rupees, without including the foreign Money Orders amounting to over 10 million sterling in value. The Post Office derived a revenue of Rs. 96,46,084 from this business in 1919-20. The only improvement on the English model is the

introduction of the **Value Payable Parcel System,** under which the Post Office undertakes to collect the price of parcels sent through post from the buyers. But the system, though an improvement, loses much of its value owing to the limitation of 12 lbs. on parcel weight and also owing to its being confined to India exclusively.* The carriage of Insured articles accounted for nearly 4⅓ million letters and parcels in 1919-20 aggregating in value Rs. 13·30 crores. The value payable parcels numbered 11¼ million and were valued at 19·87 crores.

As already observed, the Indian Government prides itself on the lowness of the charge in connection with the Post Office. The inland post card has been sold since its introduction in 1879 at ¼ anna, while the inland letter has been charged at ½ anna. The weight carried for ½ anna was ½ tola between 1869 and 1905, ¾ tola between 1905 and 1907, and 1 tola or 2/5 of an oz. since that date. The one anna weight was raised in 1907 from 1½ tola to 10 tolas. Since 1908 the newspaper rates were reduced by half, being now 8 tolas for ¼ anna, 40 tolas for ½ anna, and extra ½ anna for every additional 40 tolas or fraction thereof. Inland parcel rate was reduced by half in 1907, while one anna for ½ oz. rate applies to all letters to England, the British possessions and Egypt. The telegraph rates were of three classes prior to 1909: Ordinary, Urgent and Deferred, the ordinary being (1883-1903) 1 rupee minimum, or 1 anna per word, the urgent being double; and deferred half, the ordinary charges. On 1904-05 a deferred telegram of 10 words for annas 4 was introduced, additional words being charged at 1 anna each as before. In 1909 the deferred rates were abolished, and the two classes of ordinary and express established, the former being charged 6 annas for 12 words, and ½ anna extra for each additional word, the latter one rupee and one anna respectively. Special rates are allowed for press telegrams and facilities have, since 1912, been introduced, for those who cannot avail themselves of codes, for deferred telegrams in plain language at half the usual rates between India and the United kindgom or the British Possessions.

All these rates have been substantially increased during the late War. It is hoped that with the restoration of peace this tax on communication would disappear.†

The telephone service in India is in private hands, but the Wireless telegraphy is in the hands of the State. For the telephone the Government obtain a royalty amounting in 1914-15 to Rs. 91,394 in addition to Rs. 8,77,492 being rent of telephones.

The Post Office in India has great possibilities as a revenue department, without adding in the least to the tax on communications. So far the department has been administered perfunctorily on the English model, the Indian Government taking credit only for its relatively low rates as an improvement. (1) We, in India, have introduced none of those labour—saving appliances which, like

* Since May, 1920 the system has been extended to the United Kingdom.
† The Budget of 1921-22 proposes to increase these charges still further.

the automatic stamp selling machine, while affording a more regular and contînous service to the public, reduce very considerably the charges of the Department. (2) Our Postal Parcels service, in spite of a very considerable system of State and Guaranteed Railways, is limited to 11 or 12 lbs. to the great inconvenience of the public and considerable loss of revenue to the State. The limit on the weight of parcels was intelligible when they had to be carried by runners or vehicles driven by animals. But in these days of railways, the limit is harmful alike to the State and the public. There is no doubt that the State would gain considerably if the limit were raised to 1 cwt. or even to 1 maund of 82 lbs. even though the charges were levied uniformly according to weight alone and irrespective of distances. With the one maund limit, there ought to be an addition of about a million pounds met to the postal revenues at the most moderate calculations.* (3) The Post Office Savings Banks impose rules on their depositors alike vaxious and uneconomical as to the interest allowed, the time for withdrawal, the maximum and minimum interest allowable etc. There is no reason why the deposits may not be doubled with proper attractions and facilities. And if the most profitable employment of the money thus obtained is carefully thought out, the Government might remove from their shoulders the dead weight of this floating debt, without reducing by an iota the safety of the depositer. On a total deposit of Rs. 50 crores the 4 % rate would mean a charge of 2 crore; but the money handed over to a State Bank would yield at least 6 % if not more, and thus afford a practical saving to the State of 1 crore at the same time that the public gets better interest. (4) The introduction of the system of the Postal Cheque may well be suggested in this connection. It would very much cheapen the inland remittance, and yet add to the income of the State. The Money Order receipts now amount to nearly a crore of rupees. If this service is continued and a special Postal Cheque introduced for the benefit of the depositors, not only would the deposits increase in amount and their balance more substantial and more regular, but the addition to the stamp revenues and remittance charges at ¼ the present rate would be considerable. At 1 % the present income to the State means remittances of 90 crores. If half this amount is added to the deposits, that would mean Rs. 40 crores in current amount, on which the interest difference would alone add to the public income 2 crores. The additional charge for the service would barely add 5 lacs to clerical and similar establishments. Lastly (5) the post office has a very large field for development as Insurance Agency to the public at large. The private insurance companies now levy a tax of several crores even in such a backward country as India where Insurance benefits are so little understood. The State would afford a much better security to the assured than the private company, intent on finding every subterfuge or legal trickery to evade or reduce its liability even if the charges are identical.† If all these changes are

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* There are no means for a more elaborate calculations except the figure supplied by the Railways. The above estimate is very rough.

† See for an exhaustive treatment of this question of development of the Post Office the Fabian Society publication (1916) "How to pay for the War" Ch. T.

XXXII.—PORTS AND PILOTAGE.

The Ports and Pilotages charges consist of the marginally noted items which hardly call for any comment.

Charges 1914-15.	Rs.	Receipts. 1914-15	Rs.
1. Salaries and allowances	3,32,314	1. Pilotage dues	13,14,607
2. Purchase of marine stores and coal	7,37,775	2. Sale proceeds of vessels and stores	5,510
3. Pilotage and establishment	7,27,775	3. Registration fees ..	2,27,454
4. Ports and Pilotage ..	3,78,506	4. Coast dues ..	3,67,644
5. Other charges	9,63,573		
6. Charges in England ..		Total Rs.	21,05,078

In connection with the charges of Civil Buildings, we may observe that the outlay in connection with the New Delhi was defrayed out of current revenues. The late Mr. Gokhale was against this course and advocated that the expenditure be treated as a capital charge, which should be met from the borrowed money. As the works cannot be called productive, it would be difficult to sustain this contention on sound financial grounds.

CHAPTER VI.

EXPENDITURE OF THE GOVERNMENT OF INDIA IN ENGLAND.

XXXIII.—CONSTITUTIONAL ASPECT.

The expenditure of the Government of India in England—the so-called Home Charges,—though already considered under the General Expenditure, require special consideration for special reasons. This expenditure is, (1) in the first, place outside the control of the Government of India, as it is disbursed by the Secretary of State, on account of the Government of India in England. In any scheme of economy that the Government of India might desire to introduce this large expenditure amounting to nearly 30 million pounds a year—or about 25 per cent. of the total expenditure of India must necessarily be left out. We have discussed elsewhere the constitutional changes that must be made in order to bring the whole of the expenditure of India under the control of the Government of India. We shall here merely observe that this extra-Indian expenditure requires special study, as its peculiar character is likely to give rise to considerable misunderstanding. The Indian public opinion has, ever since the late Mr. Dadabhai Naoroji published his book on "Poverty and Un-British rule in India." unanimously considered these Home Charges as a net loss to India without any corresponding return. The pecularity of this expenditure cannot be denied by the apologists for the Government of India. But they have strenuously endeavoured to show that India receives an equivalent return for the Home charges.

The following table shows the growth of the Home Charges :—

Year.	Amount.	Year.	Amount.	Year.	Amount.
1859-60	5,042,945	1880-81	14,418,986	1900-01	17,200,957
1860-61	5,394,616	1881-82	14,399.083	1901-02	17,368,655
1861-62	5,209,264	1882-83	14,101,261	1902-03	18,361,821
1862-63	4,943,425	1883-84	15,030,195	1903-04	18,116,471
1863-64	4,777,630	1884-85	14,100,982	1904-05	19,473,757
1864-65	4,802,401	1885-86	14,014,733	1905-06	18.617,465
1865-66	4,981,185	1886-87	14,409,949	1906-07	19,[illegible]8,408
1866-67	6,704,602	1887-88	15.389,065	1907-08	18,487,267
1867-68	6,852,419	1888-89	14 983 221	1908-09	18 925 159
1868-69	7 951 186	1889-90	14 848 923	1909-10	19 122,916
1869-70	7,677,850	1890-91	15,568,875	1910-11	19,581,563
1870-71	8,018,253	1891-92	15,974,699	1911-12	19,957,657
1871-72	7,758,353	1892-93	16,334,541	1912-13	20,279,572
1872-73	7,916,869	1893-94	15,826,815	1913-14	20,311,673
1873-74	7,635,463	1894-95	15,707,367	1914-15	20,208,598
1874-75	7,888,817	1895-96	15 603 370	1915-16	20,109 094
1875-76	7 902 346	1896-97	15 795 836	1916-17	21,145 627
1876-77	13 229,646	1897-98	16,198,263	1917-18	26,065,057
1877-78	13,756,478	1898-99	16,303,197	1918-19	24,034,800R.E.
1878-79	13,847,219	1899-00	16,392,864	1919-20	24,676,700B.E.
1879-80	14,543,277				

THE FOLLOWING ITEMS MAKE UP THE TOTAL OF HOME CHARGES. *

Items.	1907-08 £	1908-09 £	1909-10 £	1910-11 £	1911-12 £	1912-13 £	1913-14 £	1914-15 £
Interest ordinary	1,763	1,924	2,102	2,272	2,284	2,296	2,087	2,246
,, Railways*	3,118	3,253	3,308	3,397	3,622	3,783	3,706	3,706
,, Irrigation	108	109	108	112	116	125	119	125
,, Total	4,990	5,286	5,519	5,781	6,022	6,204	5,913	6,078
Post Telegraph and Mint ..	226	234	171	191	244	245	278	218
General Administration Charges	432	441	387	403	503	440	461	489
Miscellaneous Civil charges ..	2,552	2,591	2,619	2,608	2,615	2,609	2,668	2,668
†Railway Revenue A/C.. ..	4,984	4,997	5,273	5,343	5,183	5,197	5,294	5,490
Public works	68	80	78	80	85	91	101	88
Mil. Charges	5,006	5,140	4,942	5,063	5,183	5,372	5,463	5,085
Dir. Dem. on revenue	116	146	111	92	101	99	115	65
Famine Relief etc.	13	9	12	19	20	21	17	18
Deduct receipts in England ..	406	342	413	419	480	337	351	348
Total Home Charges ..	18.487	19,925	19,122	19,581	19,958	20,280	20,312	20,209

* The figures are in thousands sterling.

† The Railway revenue account is exclusive of interest charges on capital invested in State Railways &c.

We shall state and examine briefly these two views below. Another reason which makes the study of the Home Charges interesting is the connection of that expenditure with the Currency organisation of India. From 1873 to 1899 the continuous fall in the gold value of the rupee was most clearly brought home to the Government of India owing to their heavy obligations in gold. The fall of a single penny in the value of a rupee meant an additional charge of one crore of rupees on the Indian expenditure. All throughout that period the Government of India were intensely anxious to minimize their extreme difficulties. Even after the settlement of this, question the disbursements of the Government of India in England have kept up their importance in connection with the regulation of the Indian Currency system. In another chapter, we have examined this connection more fully.

XXXIV.—ANALYSIS OF THE HOME CHARGES.

Leaving out of account the minor groups or items the total estimated Home Charges of £24,676,700 for 1919-20 may be considered under the following divisions:-

1.	Interest	£ 7,819,900
2.	Army charges	£ 7,061,000
3.	Railway revenue %	£ 5,726,500
4.	Miscellaneous Civil charges ..	£ 2,446,000
5.	Civil Administration	£ 704,100
6.	Miscellaneous	£ 919,200

Of these items Interest on Debt may be split up as in the next preceding table into that on ordinary, unproductive debt and that on productive debt. Before the War, the ordinary charge was 40 per cent. of the total charge, but owing to the increased charges on the large War Loans that item has grown considerably in the last five years. It will be more fully treated of in another chapter.

We have already discussed the Military charges incurred in England. The Railway charges consist of (a) Interest on capital borrowed for State Railways, (b) Annuities by which some lines are being acquired by the Government and (c) the profits of the Guaranteed Companies. The Railway and Irrigation expenditure is dealt with in the section dealing with Revenues.

Payments in connection with the Civil Departments in India, include Postal and Telegraphic subsidies, allowances to Indian Civil Service Candidates, examination fees, maintenance of lunatics &c. The charges of the Indian Office, considered by Indian public opinion to be more fitly chargeable on the British Exchequer, have already been considered under General Administration, as also the Pensions and Furlough &c. charges.

All these Home Charges are, since 1899, in normal circumstances, met from the proceeds of the Council Bills sold in England on India. As the exports of India are always in excess of her imports, the foreigners must remit to India the

net value of this excess. To do so, they buy bills on India offered by the Secretary of State for sale, and the proceeds are applied for the payment of the Home Charges. The buyers send the Bills to India where they are cashed at the Indian Government Treasuries. As regards the Indian Exchequer the result is, therefore, the same as if the amount had been directly remitted to England. Before the Indian Mints were closed to the free coinage of silver, the price which the Secretary of State obtained for his Bills, was determined by the gold value of silver bullion. If bills were offered at a rate less than the market rate of silver, importers could adopt the alternative of purchasing bullion and sending it to India. Until 1871-1872 the gold value of the rupee had, except in one year, always exceeded 22d. The increasing production of silver and its reduced employment for monetary purposes due to the currency policy of Germany and other countries led to fluctuations with a constant downward tendency until in 1895 it reached the lowest price of little more than 13 d—Re. 1. As the price of silver fell, the Secretary of State obtained worse and worse terms for his bills, or in other words, the Government of India had to pay a continually increasing toll to meet the sterling expenditure in England. Thus rose the principal, though not the only, cause of the loss by exchange. The changes in the Currency system adopted in 1899, and discussed in another chapter, resulted in stabilising the value of the rupee allowing for very slight variation on either side of 16d. These limits were firmly maintained until the end of 1916. A good deal of financial embarrassment and instability, which was so characteristic of the Indian finance in the last three decades the nineteenth Century, was thus removed. At the present time the sale of Council Bills is necessarily connected with the amount of expenditure incurred in England and chargeable to the revenue of India. The constant growth of the Home Charges has occasioned much anxiety not only because it is a very great burden on the Indian revenue and outside the control of the Government of India, but also because so long as this heavy charge is maintained, there would be no possibility of increasing the expenditure of the Government of India on the more necessary items of Education or Sanitation, or the economic development of the country.

XXXV.—THE DRAIN.

The most important problem in connection with the expenditure of the Government of India in England is the question whether the amount of the Home Charges represent a tribute levied by England from India. Is it an "Economic Drain"? At first sight it would appear that 30 millions of pounds or so spent every year in England brings no correspondent benefit, and that therefore it represents the amount of the Drain from India, due to the Political connection between England and India. If, however, we examine the question more thoroughly, we find that the trade of India has invariably shown the phenomenon of an invariable excess of exports over imports. The excess of exports over imports is not any indication of the economic position of the country concerned. Before we can strike

a proper balance of trade in favour of or against any country we must remember that there are several items which do not figure at first sight in the amounts of exports or imports. Thus, for example, the loans raised by one country abroad until converted into merchandise would not be recorded in the trade returns as also the annual interest on these loans paid by the debtor country to the creditor country. Similarly the earnings of native merchants living abroad, and foreign merchants living within, a country as well as the expenses of foreigners within a country and of its own citizens abroad, must also be included before a correct balance can be struck. The services rendered by ships would also usually escape enumeration in the ordinary trade returns. On the whole, however, it will be true to say that ultimately all these items would be accounted for in one way or another under the trade returns. And we may therefore take the excess of exports as a good indication of the extent of the favourable or unfavourable balance of international indebtedness of that country.

On this basis we find the following table summing up all the available factors affecting the argument :—

Year.	Excess of Exports. £	Home charges £	Increase of Indebtedness. £
1899-00	13,841,000	16,392,846	224,204
1900-01	10,983,000	17,220,957	9,290,978
1901-02	17,999,000	17,368,655	871,711
1902-03	18,570,811	18,361,821	510,829
1903-04	24,893,640	18,146,472	750,417
1904-05	20,227,966	19,473,757	158,653
1905-06	22,360,581	18,617,465	13,570,248
1906-07	-13,950,598	19,028,408	1,061,195
1907-08	2,667,904	18,487,267	8,962,440
1908-09	5,228,263	18,925,159	4,492,295
1909-10	22,794,990	19,122,916	9,132,542
1910-11	27,223,910	19,581,563	7,892,424
1911-12	29,097,946	19,957,657	488,262
1912-13	26,685,000	20,279,572	692,596
1913-14	23,053,000	20,311,673	1,114,436
1914-15	16,797,066	20,208,598	874,399

Leaving out of account the figures for the War years, as being abnormal, we find the net excessof exports in fifteen years amounting to £296,454,675, while the total of the Home Charges during the same period was £ 322,534,786. The total debt incurred in that period in England, allowing for the repayment of debt, was £ 50,941,551. Deducting the amount borrowed from the figure of the Home Charges since the loans raised in England would be equally available for the payment of

the Home charges, we find the total of the charge payable from the current revenues to be £ 271,159,323 which deducted from the total figure of the net excess of exports leaves about £ 24,461,440 to be accounted for. We may take that figure to represent the remittances of the English private gentlemen resident in India and able to show a margin of profit on their annual operations, which they remit to England. It would not be very inaccurate if we take the annual figure by which India is drained to be about £ 20 millions or 30 crores of rupees. It has been argued that the figure of net excess of exports is not quite properly taken to show the disadvantage to India, as that figure includes the Imports of Stores on Government Account. These stores are charged against the revenues and are as such included in the Home Charges. But as India presumably received an equivalent the amount of the stores it ought to be deducted.* This leaves the net drain to be still over £ 15 million.

As already observed the Indian public opinion considers this amount to represent the annual tribute exacted from India owing to her political dependence on England, and consequently the measure of the annual improverishment of this country. The apologists of the present Government have endeavoured to show, by plausible arguments, that the assumed drain either does not exist, or is made up for by the equivalent in goods or services received by India in return. We shall examine below briefly the main contentions on either side.†

(1) The charges paid by way of interest on capital borrowed constitute the most important item of the Home Charges. These charges, it could be argued before the recent War, consisted of the return to a large degree, on capital invested in India in productive enterprises like the Railways and Irrigation Works. They must be paid if the resources of India are to be developed and India is to take her rightful place among the nations of the world in matters of Industrial activity. As Indian capital is either inadequate or unwilling to be invested in these projects foreign capital must be raised for the purpose and interest on such capital is nothing but a legitimate economic return, which should not be classed as Drain from India. India is by no means the only country in this predicament. Besides, the advantages of such borrowed capital are not confined to a development of the national resources; the increased amount of employment and consequently increased earnings add to the wealths of the people in all classes. Apart from capital borrowed on Government guarantee (which alone figures in the Home Charges proper) private capital invested in India in such industries as tea or jute

* The net importaut of these stores amounted to £ 4·3 million a year a total of £65·8 million in 15 years

Year.		£	Year.		£
1900-01	..	2,844,770	1907-08	..	4,343,714
1901-02	..	4,554,106	1908-09	..	4,931,501
1902-03	..	4,300,014	1909-10	..	3,671,797
1903-04	..	4,707,602	1910-11	..	2,484,000
1904-05	..	5,017,833	1911-12	..	3,558,000
1905-06	..	5,941,380	1912-13	..	3,666,000
1906-07	..	5,884,470	1913-14	..	5,283,000
			1914-15	..	4,278,000
			Total	..	65,830,205

† As Mr. Dadabhai Naoroji's work is a classic representing the Indian point of view on the question of the drain, Sir T. Morrison's India in Transition is the most compact and consistent scientific work, giving the other side.

perform the same service.* The case as it is thus presented is strong enough. But we must remember (a) that though the item of interest taken as a whole represents the capital invested in this country, not the whole amount has been employed for developmental purpose exclusively. The portion of interest paid on ordinary debt and amounting to over £ 2 million before the War is a charge for a wholly unproductive purpose. It represents debt incurred mainly for War expenditure and Famine Relief, including the heavy legacy of unproductive debt left by the East India Company.† **For the interest paid on this amount, Indian opinion may well regard that there is no economic equivalent in return.** The establishment of a strong good Government is no doubt a blessing; but one of the profits of a strong Government is to try and reduce this unproductive charges as rapidly as may be. Instead, however, even before the late War, these charges were constantly growing. (b) As regards the productive debt, the point may be conceded that there is a measureable economic return, but not the whole charge of interest even in this case represents a proper development of the country. Apart altogether from the rival claims of Irrigation and Railway Works, apart from the long continued wastefulness of the Railways in India (which have begun to yield a net profit after meeting all the charges only since the beginning of the present century while, before that for a half century they were every year a net loss to the country) we must urge that the terms on which this capital has been raised by the Government were unduly unfavourable to the Government, made still more so by the fixed rate of exchange during 20 years when exchange was steadily going against the Government of India. Moreover, not all the railways have been constructed for purposes of the economic development of the land, The Military Railways on the frontier, to mention but one example, were for a long time a source of heavy loss; and it was only the recent development of the Irrigation works that has rendered them at all profitable. This point is more developed elsewhere.‡ (c) Finally the claim urged on behalf of the Government that its credit has enabled India to borrow on relatively easier terms than would have been the case if India were under indigenous rule, and that this saving ought to be regarded as some compensation even in the most unproductive item, is simply untenable.§ In a common money-market, such as London was in the last century, everyone who borrowed, with a sufficient good credit, would obtain the same terms. The proverbially uncertain Governments of the South African Republics were during the same period able to borrow at terms not materially different from those offered to

* Cp. India in Transition for an analytical study of the net gain to private foreign capital invested in India in industrial or commercial projects.

† See the chapter dealing with the Debt of India Part IV.

‡ See the next part of the chapter on public works.

§ Saus Sir T. Morrison (Cp. Cit). "England's credit enabled India to borrow money much more cheaply than she could otherwise do, and as a matter of fact India can and does borrow money much more cheaply than Japan, which pays interest from 6 to 8 % on internal loans, and 4½ % to 5 % on foreign loans...... India borrows at 3½ % per cent. The gain to India from England, may therefore be expressed as a reduction of 2½ per cent in the rate at which she has borrowed capital. An additional 2 % on India's total debt of £267,000,000 would represent an additional charge of £5,340,000." Besides the points made in the texts to answer this contention, we may here remark that it is somewhat confusing to speak of India's connection with England having benefitted the former in the way suggested. India borrows on her own credit. The English Government has never guaranteed the credit of India, and it may be added the fore-most Anglo-Indian financiers have all along been against the idea of England propping up India's credit. See the financial statement by Sir J. Strachey, 1879-80.

India. In fact the Government of India, by creating a precedent of high guarantees at the start, precluded themselves from obtaining better terms in time when money was easier. And as these loans were for a long period they could not avail themselves of a more permanent decline in the rate of interest as was the case between 1875 and 1895. (d) As regards the private capital invested in India by foreigners for the development of new industries like tea or jute, the argument of increased wealth and employments to Indians would be irresistible if the capitalist was restricted to the fixed economic return on his investment. In India the opening up of new Industries by external capital has all along been conditional upon all the best advantages of the new industries being permanently reserved for the foreign entrepreneur. The analysis of a Balance sheet of a typical firm is unreliable in such an argument as the present, as a scrutiny of the Balance sheet does not enable us to determine the amount paid away in salaries to higher officials who are almost exclusively non-Indians, the amounts set apart as Reserves, the sums paid as managing commissions &c. The advantage to the Indians from the creation of new employment is set off by channels of previous employment blocked by the competition of these new ventures. And the condition of employment, if we are to judge from the perennial disputes and scandals connected with the tea industry, are scarcely human. We, cannot therefore, accept in this connection the analogy of countries like Japan, or the U. S. A. which also have been obliged to develop their local resources by foreign capital. In these countries the capitalist must content himself with the fixed economic return on his investment, the control ,direction and conduct of the enterprise being in the hands of the nationals, and carried on by them under the sovereignty of their states for the country's benefit. Enlightened opinion cannot object to the development of our resources by foreign capital if necessary. What it objects to is the perpetual mortgage of the national resources to such foreign capitalists, to the control which they indirectly obtain of the national industrial policy, to the unreasonable conditions of employment to indigenous labour which they offer without fear of the interference by the State as guardians of the interests of labour.

We need scarcely labour the same point with regard to the items of civil and military charges. In a self-governing or independent country the phenomenon would be impossible. There is not even a semblance of justification for these charges, which, instead of being progressively reduced, are perenially increased. On the whole then we cannot but object to the expenditure of the Government of India in England or grounds alike of political principles administrative convenience, and economic utility, and must suggest that immediate, effective steps be taken progressively to reduce this expenditure by discontinuing the recruitment for civil and military services outside India, by adopting energetic measures for the repayment of our unproductive debt and of the reduction of all external indebtedness, and by all other such measures as would guarantee the abolition of this charge in time before revolutionary steps of repudiation of such obligations come to be suggested and adopted.

PART III.

PUBLIC REVENUE OF THE GOVERNMENT OF INDIA.

CHAPTER I.

GENERAL CONSIDERATIONS ON THE CHARACTER OF PUBLIC REVENUES.

XXXVI.—NATURE OF PUBLIC REVENUES.

Before considering the revenues of India, we must understand clearly (a) the nature of Public Revenues, (b) the principles which should govern these revenues, (c) the most equitable methods by which public burdens should be apportioned on the community, (d) and the different effects of the various kinds of these revenues. At the outset of a discussion of the Public Revenues of any state these general considerations are necessary as much for the clearer and fuller appreciation of the subject, as for the great importance of Tax Revenues in the Budgets of all the leading countries.* We may indeed, be inclined to accept the doctrine of Proudhon that all property is indistinguishable from theft; we may even be induced to accept the Socialist position that the interests of simplicity in Finances demand the abolition of the private ownership of the instruments of production, as well as of production by private enterprize, so that in a properly constructed state all private incomes would be in the form of official salaries, derived from an all embracing activity of the State, which should then obtain all the surplus from industrial enterprize which now goes to the private persons for their personal advancement. But even if we be convinced of this position, the existing tax-system must nevertheless be studied, and maintained with improvements, if for no other reason, in order to realise by this transitional measure of the Tax system the very ideals of Collectivism. In the following pages the Indian Tax system has been analysed and critised, and improvements and additions have been suggested according to the maxims and ideals laid down in this chapter.

* Says Cohn, "For the modern state the tax and the National finances are indissolubly bound together....so long as private property continues to be the fundamental institution in modern society and the basis of industry and of the public economy, the tax must also necessarily continue to be the foundation and the corner-stone of the public finance."

(The Science of finance by Gustev Cohn; translation by T. B. Veblen Art. 194, p. 290).

As the bulk of the Public Revenues in the leading States are composed of taxes, we shall commence the inquiry by an analysis of the nature of a Tax. WHAT IS A TAX? The definitions collected in the Foot Note (1) seem all to give undue prominence to only to one kind of tax revenues,—the Direct Taxes.

The clear perception of the burden by the tax-payer which would serve to bring out prominently the element of compulsion is possible only in these taxes; but because the relation of the burden is not so clear in taxes upon commodities or in charges for services, they are none the less real taxes. Again, though it may be conceded that in every case where there is a possibility of obtaining a quid pro quo the payment made by the citizen may be rather a price paid for utilities purchased than a compulsory contribution irrespective of any benefit received, it must be remembered that not in every case of a charge made by the State for a real service rendered has the citizen either the power to co-relate the amount paid to the utility or service obtained, or the option to forego the payment altogether. In almost every case of a public monopoly of any service or utility-the Post office of England, the Railways of Prussia, the Tobacco Monopoly of France and the Vodka monopoly of Russia—the citizen cannot avoid the payment of these charges, short of discontinuing altogether his consumption of those utilities or services; and as most of these utilities or services are of primary importance, the specious alternative of refraining from consumption, though possible in theory, is unthinkable in practice. An intelligent and sympathetic government does, indeed, always endeavour to adjust its charges for the monopolised utilities or services to their true commercial value, but the retention of the absolute power by the State to enhance these charges at its will and to suit its own emergencies regardless of the true commercial correspondence between the price asked and the utility offered, served effectively to distinguish these charges from a true commercial valuation. This is apart from the fact that we have no means of knowing whether even the initial charges are really fixed according

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1. Lercy-Beaulieu's definition:

"L' impot est la contribution exige de chaque citoyen pour, sa part dans les depenses du Government Si cette formule semble trop modeste et trop empirique on peut recourira la suivant. L' Impot est le prix des service que rend, ou q'a rendu, l'etat, il represente en outre la part que chaque citoyen, par application du principe de la solidarite nationle, doit supporter dans les charges de toute sorte et toute origine qui pesent sur l' etat.

(Traite de la acience de Finances Vol. 1 p. 151 Edn. 8).

"The tax is a contribution exacted from each citizen for his share of the expenses of Government. If this formula seems too modest and too empirical we might have recourse to the following:—A Tax is the price of services which the State renders or has rendered; it represents, besides, the part which each citizen, according to the principle of national solidarity, ought to bear in the expenditure of all kinds and of every sources which press upon the State."

Definition of Taussig:—

"The essence of a tax, as distinguished, from other charges by the Government, is the absence of a direct **quidpro quo** between the tax-payer and the public authority. It follows that a tax is necessarily a compulsory levy. "(Principles of economics. Vol. II Ch. 66 0. 483).

Definition of Prof: Adams:—

"The results of the foregoing analysis, not alone in this chapter but in the previous chapter as well, may be summarised in the four following statements:—

First:— From the point of view of the State a Tax is a source of derivative revenue.

Second:—From the point of view of administration, a tax is a demand for money by the State in conformity with established legal rules.

Third:—From the point of view of the citizen, a tax is a coerced payment.

Fourth:—From the point of view of theory, a tax is a contribution from individual for common benefit."

(The Science of Finance by H. C. Adams).

Definition of Prof: Bastable:—

"A tax is a compulsory contribution of the wealth of a person or body of persons for the service of the public powers."

(Public Finance p. 262).

to the true commercial principles. We do not know if the uniform penny Postage in England really represented the true commercial cost of the service rendered. Judging merely from the huge pre-war profits of the English Post Office it seems to have been much in excess. But the fact that Parliament could and did alter these charges for reasons entirely non-commercial is enough, in our judgment, to distinguish these charges from prices for services charged on commercial principles. **A proper definition of taxes would, therefore, include all payments made to the state by individuals or corporations, residing within the jurisdiction of that State, directly or indirectly, under obvious or imperceptible compulsion.*** The existing social structure being founded on private property and private enterprize these payments will necessarily be derived—and, therefore, a deduction from—private wealth. Such a definition would comprise not only the Taxes Direct or Indirect, commonly so-called, but also the so-called Fees and all other charges in which the individual must make payment; in fact, where there is no real correspondence between the price paid and the utility obtained, no real option to obtain from other sources similar benefits by similar payments. As the fund made up of the proceeds of such charges or contributions is held collectively, and not ear-marked in distinct portions for separate, specific purposes, we may add that these payments are made into a common fund for common benefit. This addition will also serve to emphasise the sense of national solidarity which is indispensable if the financial system is to be well administered.†

Having cleared our ideas respecting the nature of a tax we shall next dispose of briefly some common misapprehensions. Proposals for new taxes or suggestions for reform in the existing systems are often questioned on the ground of want

* We have used the terms "Individuals or corporations residing within the jurisdiction of that State" in preference to the commonly accepted phrase citizens, in order to indicate that in modern States many income and property taxes are paid by citizens, as well as foreign subjects residents or domiciled in the State and of course all consumption taxes by all residents alike.

† The comparatively wide conception of taxes accepted above is, it is needless to say, different from currently adopted orthodox view regarding the nature of a tax. The distinction commonly drawn between Taxes, Fees and Charges for services rendered by the State is not, in our opinion, always tenable because:—

(1) The postulate of the Sovereign authority of the State is inconsistent with the assumption that while the taxes are independent of any return for payments, fees and other charges are proportioned to the benefit received. The fact that (a) the State can vary these charges for its own needs, and (b) that the individual has no real option makes the so-called fees and other charges indistinguishable from taxes. They are all practically compulsory payments for the support of the State.

(2) There is no separate fund—nor distinct objects—for taxes on the one hand and fees and commercial charges on the other. They are all paid into one fund and are collectively utilised for the common benefit Their incidence—or exact degree of pressure—is ultimately determined by the collective necessities of the State, though in normal times there may be an attempt to bring about some correspondence between the service rendered and fees or prices charged.

(3) The entire revenue system of modern States is essentially transitional, if we accept the doctrine that the State must, in near future, own conduct and control. on behalf of the community, all means of production, distribution and exchange. Taxation and all proposed radical reform in existing tax systems come to be regarded more and more as excellent weapons for abridging the period of transition. In proportion as a State approaches the realisation of the ultimate goal, the old—time distinction between taxes and other form of public incomes, even if originally real, would gradually weaken and finally disappear. Taxes proper are compulsory contributions irrespective of the quid pro quo—will come to predominate till they, also, are eventually replaced by the surplus derived from the industrial and commercial activity of the State—that surplus being sufficient for all the expenditure of the State on services not capable of monetary returns.

(4) The distinction between taxes proper, as they are called, and the fees and other charges is sometimes sustained on the ground that different principles have to be adopted in levying these various charges. But this ground is fallacious inasmuch as the difference in principles of levying and assessment exists as clearly between the Direct and Indirect Taxes, personal and property taxes, properly so called, as between taxes and and fees, or taxes and charges for monopolised public services.

It must be noted that the conception of the nature of a tax adopted above is not always incompatible with the presence in a given revenue system of forms of income which really are not taxes. The Income from the Crown lands and Suez Canal shares in the English Budget, the opium revenue in India, the profits of camphor monopoly in Japan are instances to the point. The inability of the individual State to manipulate such dues exclusively by its own sovereign authority, and the effectiveness of competitive commercial conditions in fixing these charges completely distinguishes them from the Tobacco revenue of France and Railway revenue of Prussia.

of benefit to any ascertainable class of indiduals. In the case of all taxes levied by the Central Government, at least, the attempt to correlate the tax burdens with benefits received is bound to prove futile. For there is a large class of the community in all countries under our existing social system—the infants. the lunatics the disabled and the impoverished—who, by the nature of things, are bound to obtain very great benefits from the State for which they are themselves unable to make any contribution. If taxes were nothing but payments for benefits received, the rich and the strong would have to make little or no contribution, the poor and the infirm would have to bear the entire burden. Moreover, in each payment of a tax, the individual making payment is giving a contribution, not only for useful service rendered to him by the State, but also for all the follies and errors of contemporary, or previous statesmen, and the consequent burdens upon the public purse.* So also the idea that the payment of taxes is a sort of premium for insurance against loss of life or property is incompatible with modern notions of public finance. The public expenditure for purposes of public security—for Police. Jails, and Courts of law—forms an insignificant fraction of the total expenditure in most modern States. And even if we interpret the phrase public security more liberally, and include expenditure on the Army, the Navy and military equipment—expenditure, which in reality, is incurred rather for aggression or, at least, the maintenance and preservation of national degnity and prestige than for the security at Home of the community itself,—we shall find the total of such expenditure even in such obviously Militarist countries as Germany or India a fraction of the total public expenditure. The doctrine, indeed, which would make tax—payments identical with insurance premia adopts too narrow a view of the functions of the State. However popular it might have been with the generation of J. S. Mill and Herbert Spencer, it is now no longer acceptable. Besides, even accepting the narrow view the analogy of insurance premia is entirely inapplicable. While the insurance company must replace the article insured on its loss or destruction, or give equivalent, the State does not—except by way of special grace—replace or give equivalent for crops destroyed by flood or enemy invader. If one citizen is robbed by another the State will pursue and punish the thief; but if he has destroyed or consumed the stolen property, the state will not replace it.

XXXVII. THE ASSESSMENT AND APPORTIONMENT OF TAXES.

The principles governing the assessment of taxes we shall discuss when dealing with each particular kind of taxes under the Indian Revenue System, since they differ very much according to the various kinds of taxes. The question, therefore, that is and must be asked in reference to all taxes : what will be their effects

* See Roy Beaulieu, op. Cit. p. 148.

upon the country's industry, upon the national wealth as a whole cannot be discussed in this general section. But the question of justice in apportioning the burdens of taxation is sufficiently general to be fitly discussed here. The most celebrated canon of taxation laid down by Adam Smith is :—

" The subjects of every state ought to contribute to the support of the Government, as nearly as possible, in proportion to their respective abilities."

The meaning of the term abilities, used by Smith has been differently interpreted by the publicists and statemen belonging to the divergent schools of Proportional Taxation and Progressive Taxation. Under the former case the distribution of tax burdens would be made on a simple mathematical principle of fixing a standard to indicate ability, and then demanding a given proportion from each individual according to that standard of ability. Whether or not the assumed standard of ability indicates the real ability of the tax-payer, the advocate of proportional taxation is not concerned with. The system of progressive taxation arises from the desire to distribute the tax-burdens so as to bring about an equality of the pressure of taxation. This system, more in line with the latest development in the science of economics, tries to bring about an equality of sacrifice and equality of pressure.. Progressive taxation is based on the assumption that the utility of income (or wealth) decreases as its quantity increases. and that, consequently, larger incomes, (or wealth) should be taxed at a progressively increasing rate. In order to apply the system of progressive taxes with substantial justice in practice, we must have a clear indication of what constitutes ability, and how the differences in that ability are to be measured. A critical examination of the existing tax-system shows that, generally speaking, three distinct indications of ability are accepted by the different countries, viz : (a) Income, (b) Property, (c) Expenditure.

Income taxes would apparently be the simplest and probably the most scientific, if all incomes were derived from the same sources and under the same conditions of certainty, regularity, and continuity, had the same burdens to support and were of the same magnitude.

The fact that in all systems where the progressive system is accepted and applied to Income Taxes, the Government has to elaborate a complicated system of refunds, exceptions or exemptions and discriminations, is sometimes urged as an argument to emphasise the impracticability, if not the injustice, of Income Taxes under a progressive principle. But these difficulties are due, not to the essential injustice or unwisdom of Income Taxes, but to the inherent vices of the existing system of private property and private enterprize. Under the existing regime it would perhaps be more accurate to regard the Income Taxes, not so much as the embodiment of scientific financiering, as an attempt, crude and temporary as it may be, to effect the gradual transition from the regime of private enterprize with the least disturbance. No system of direct taxation of income can be worked satisfactorily unless this essentially transitory character and the true

ultimate aim of bringing about a redistribution of wealth is realised. Logically speaking such an attempt ought to result in taxation progressing at a rate which would absorb all incomes beyond a point which would be ample to cover all normal and legitimate needs of the recipient, while all incomes under a point necessary to support the receipient in a reasonable degree of social comfort and in due efficiency should be entirely exempted from such taxes. The fact that nowhere do we find this logical conclusion realised, argues the timidity, self-interest or even misapprehension of the taxing authority, and not so much the inherent weakness of the suggestion.

The difficulty in the way of a proper working of a true scientific system of income taxes has led to the necessity of finding supplementary taxes. Next to the taxation of income, the best indication of the ability of the tax-payer is his property. Taking land as the oldest and the most important form of property, we find Property Taxes as important as they are wide spread and old. But the other forms of property are relatively of recent origin, and therefore their taxation is not important as that of Land. The difficulties of taxing all forms of property are, if any thing, greater than that of taxing Income. For property is frequently in transition from one individual to another, and there is a great risk of the tax being evaded in the process of transition. Moreover property of individuals, unlike Income, is seldom concentrated in one place. Its wide dispersion makes its successful taxation by a territorially limited authority extremely difficult. And whether owing to its frequent transfer or to its dispersion, the possibility of evading the tax is very considerable.

These difficulties in the way of a proper working of the Income and Property taxes—or the direct taxation of wealth—have preserved the otherwise crude, antiquated and uneconomic system of direct taxation on that indication of wealth which is shown by an individual's expenditure. Taxes on expenditure consist chiefly of Excise and Customs duties. As they are, generally speaking, paid along with, and as a part of, the price of the articles of consumption, their burden is not really perceived by the actual tax-payer. It must, however, be noted that taxes on expenditure are not necessarily or invariably unperceived or indirect taxes. The license duties payable on keeping dogs, cycles, carriages and horses, men-servants and motor-cars are as direct as any Income tax. As however the yield from these latter is never very considerable and as their assessment is usually on a fixed scale left to the local governing authorities, public attention is chiefly riveted on the limited class of expenditure taxes, comprised in the Excise and Customs duties. In their case it should be illusory to maintain that the taxing authority can always apportion the tax burden according to the ability of the tax payer. Commodities thus taxed will be necessarily these which, being of universal consumption, will yield a considerable revenue. But precisely because they are prime necessaries of life, and therefore of universal consumption, the individuals contributing will have to contribute irrespective of their ability. A

salt tax, a tea duty, an excise charge must be paid by any one using the article taxed, regardless of the power to pay. It is sometimes urged in favour of these expenditure taxes,* that their essential characteristic is that the faculty on which they are based is not one calculated or estimated by the Exchequer, as in the case of Income taxes, but one which the tax-payer imputes to himself. But the plea is sound, if at all, in the case of taxation of luxuries or superfluities. When the article taxed is salt or tea, or a piece of clothing which the poorest individual must consume, it is absurd to suggest that the individual gives his own standard of ability. He is, indeed, at liberty to save himself the tax burden by not using the taxed article; but so he is at liberty to eat dog's meat, to sleep in a grave-yard, to starve to death. Wherever, therefore, taxation of articles of universal consumption is practised, the rule is attempted to be observed that this kind of taxes should be so framed as would not impair the productive powers of the country. But the two aims of getting the largest income for the State from these taxes, and keeping up unimpaired the productive powers of the country, are often incompatible. The attempts to reconcile them by a system of refunds of excise and custom duties on the articles once taxed being exported, or of exemption of those goods intended to be used as raw materials for manufacturere of goods, are not only clumsy in themselves, but often incapable of remedying the harm already done.

Another argument in favour of expenditure taxes, which is sometimes urged, is concerned with the power of the State, by means of these taxes, to discourage harmful consumption. It is on this ground that excise duties in England and India are usually defended. But (1) merely to raise the price of an article will never, by itself, suffice to put a stop to its consumption however injurious it may be. Not only there are classes which cannot possibly be seriously affected by any increase in these taxes, and, therefore, there real burden of such taxes will fall with disproportionate weight on the glass of beer as against a bottle of champagne; but the institution of such duties may often enable the dealers in such articles to levy an additional tax for their own profit which can well be concealed under the charge levied by the State. The large annual income (2) moreover that some States obtain by means of this taxation of injurious consumption exposes the sincerity of statesmen more than ever to suspicion, when they talk of raising these taxes to reduce consumption. They will never raise such taxation to the really prohibitive limit, even supposing the mere increase in price is effective in preventing consumption completely, unless and until there is a radical change in the fundamental principles governing the existing tax system. For the only effective way of regulating consumption and keeping it within bounds is to make such articles the absolute monopoly of the State, which will then control the manufacture and supply as well as prices and sale. Finanlly (3) there may be legitimate differences of opinion about the real injury done to the consumer by specific

* See N. G. Pierson Principle of Economics Vol. II.

articles. Even Opium and Cocaine are useful medicines. Within limits the consumption of intoxicating drinks, or tobacco or tea may be quite invigorating. Indiscriminate taxation,—and our existing systems can possess very little discrimination—only ends in unnecessary resentment, occasionally in serious injury.

Taxes on consumption, therefore, whether considered collectively, or from the particular standpoint of the taxation on injurious consumption, have obvious defects. The specious pretext that they are automatically adjusted to the ability of the tax-payer is impossible to maintain, if we bear in mind the relative values of different incomes, apart altogether from the fact that they will not reach all forms of income. They involve, moreover, a very costly machinery for assessment and collection. The greater the reliance placed in any tax system upon such taxes the more numerous will have to be the articles taxed, and therefore the more costly the machinery to collect the taxes, to prevent their evasion, to stop illicit consumption. The attempts to distinguish between luxuries and necessaries, to institute an elaborate system of refunds and exemptions, to lay special emphasis on injurious consumption all confess the radical unsoundness of the system they seek to correct. It is fundamentally indefensible to tax the food and drink, the clothing and communications of the people. It hampers and often misdirects consumption, and generally defeats its own purpose. And yet we cannot altogether dispense with the taxes on consumption or expenditure taxes, until the entire system of obtaining the public revenues is recast. Taxes on expenditure can only be defended on the ground that they serve to obviate the imperfections of the Income and Property taxes, or that at any rate, they all together bring about a greater measure of distributive justice in apportioning tax-burdens than any one of them singly can. But as consumption charges are usually indirect, and, therefore, their effects difficult to trace, as people might conceivably restrict consumption and thereby hamper, misdirect or curtail production, the intending tax-reformer must seek progressively to reduce and narrow the field of such taxes and increase proportionately the direct taxes, until, ultimately, the community comes into its own, and dispenses with taxation altogether.

The preceeding remarks will also apply to a large extent to the question of Direct vs. Indirect taxation. The conception of directness in taxation is not yet so definitely settled as to render confusion in classification impossible. Le Roy Beaulieu opposes the following administrative definition :—

"The direct taxes bear immediately on persons, their possession or enjoyment of wealth. They are arranged with reference to normal and permanent situation ; they contemplate nominative rules.

"The Indirect Taxes on the contrary, are realised on the ocoasion of a fect, of an act of an exchange, as regards the tax payers, they do not contemplate nominative roles, regularly and periodically established, or realised."

by the following scientific definition :—

"By (means of) Direct Tax the Legislator intends to touch, immediately and at first stroke, the true taxpayer iu proportion to his property or income, he must therefore eliminate every kind of intermediary between the taxpayer and the Exchequer, and seek a rigorous apportionment of the tax to the income or the faculty.

"By the Indire Tax the legislator does not think immediately of the tax-payer and does not seek to impose a charge strictly proportional to faculties. The true taxpayer he does not contemplate to attain except by reflection, by rebound, by repercussion, he places intermediaries between the tax payer and the Exchequer, and gives up (any idea of) a strict apportionment of taxes in particular cases, contenting himself with a rough approximate apportionment."*

According to this conception of the difference between Direct and Indirect Taxes the case is overwhelming in favour of the Direct Taxes. A tax must not, it is true, be judged by itself but in conjunction with other taxes; but even then the direct taxes have some prominent and considerable advantages. They seem more reasonable and are easy to collect. The temptation to evasion by misdeclaration of income, of false valuation of property is indeed great; but it can be greatly reduced, if not completely counteracted by such devices as taxing the income at the source, and valuing estates by expert valuers in the public service. They admit, moreover, of that sharp, easy, and effective application of the principle of progression which is the only means, under existing conditions, of effecting a quiet redistribution of wealth in order to off-set the initial disadvantages of the existing inequalities. The extent, in fact, to which direct taxes have replaced indirect taxes in any country is an unfailing indication of the degree of political advance of that country, abandoning the old, unjust, injurious ideas of class taxation and class privileges, in favour of the modern, equitable, ideal of equality in the rights and burdens of citizenship, and justice—proper distributive justice—between man and man. Besides being more just Direct taxes are more elastic and more productive. A slight increase in the rate will mean a considerable addition to the yield. In the present war the yield from direct taxes increased as compared to 1913-14 in England by 730%, while the yield from Indirect Taxes. increased by 100%†

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* Le Roy Bealieu "Science de Finance Vol. 1 p. 305 Edn. 8."

ADMINISTRATIVE DEFINITION:—

"Les impots directs portent immediatement sur les personnes sur la possession ou la jouissance de la richesse; ils s' addressent a des suituations normales et permanentes; ils comportent des role nominatifs.

Les Impots indirects au contraire sont percu a l'occasion d'un fait d'un acte d'un echange; ils ne comportent pas vis-a-vis le contribuable des roles nominatifs regulierment et periodoqueme etabli oa percue.

Par l'impot direct le legislateur se propose d' atteindre immediatement du premier bond et proportionnellemont a sa fortune ou ses revenues le veritable contribuable; il supprime donc tout intermediaire entre lui et le fisc, et il cherche une proportionnalite rigoureuse de l' impot a la fortune ou aux facultes.

Par L'impot indirect le legislateur ne vise pas immediatement le veritable contribuable et ne cherche pas a lui imposer une charge strictement proportionnelle a ses facultes; il ne se propose d' atteindre le vrai contribuable que par ricochet, par contre coup, par repercussion; il mete des internediet, entre lui et le fisec, et renonce a une stricte proportionnalite de l'impot dans les cas particuliers, se contenent d' une proportionnalite approximative en general."

† U. K.

U. K.	1913-14.	1914-15.	1915-16.	1916-17.	1917-18.
	In Millions Sterling.				
Customs and Excise	74.	81.57	120.82	127.20	110.03
Direct Taxes	85.95	108.43	169.26	389.31	503.01

N. B.—Leroy Beaulieu maintains (Vol. I op cit) that the yield from direct taxes is less elastic than that from Indirect Taxes and less productive and tries to prove his contention by reference to the case of England. The contention is unreliable since.

(1) In the period selected the extent and operation of direct taxes was very limited in English Finance.

(2) The changes in the rates were disproportionately different in periods of emergency like the Crimean War in the Indirect and Direct Taxes; and hence of course the yield was different.

(3) The increase in the Indirect Taxes moreover may be an indication not of the increased ability to pay but of increasing population and increasing consumption and so an increasing yield. In the nineteenth century England it is true increasing population went on side by side with increase in wealth but it is not true that such will be everywhere the case if reliance is placed on indirect taxes.

(4) The financial maxims of the Victorian Statesmen in England presupposed a conception of State so utterly passive that it will now be absolutely unacceptable in the most apathetic communities. Comparisons drawn from such period are therefore inapplicable since the conception of the State necessarily translates itself into the structure of the financial system.

The defects of Direct Taxes. as we conceive them, have already been mentioned above while discussing taxation of Income and Property. But these disadvantages, as already observed, necessarily result from the fundamental evils of private property and vested interest. It is the aim of Direct Taxation to remedy these evils; but they may in the first years, and until carried out to their logical conclusion, themselves be made responsible for these evils by those who cannot or will not admit the radical vices of our existing system. Thus, to mention but one instance, it is alleged that the direct taxes do not allow the State to reach all classes of wealth, and that, therefore, they exempt a large class from the tax-burdens. But the persons exempted from the operation of the Income and Property Taxes are precisely those who have little or no wealth which can be taxed, and which would yet permit them to lead a descent, human existence. To attempt to bring such persons under the pressure of taxation. in the belief of necessity of making every individual contribute towards the maintenance of the State-or with a view of a more equitable distribution of tax burdens, by means of indirect taxes on food or drink or clothing or conveniences, is to levy charges for those who cannot support them, and thus to intensify the original injustice.

As against the Direct Taxes, the Indirect Taxes have certain disadvantages. They can never be proportioned to the real ability of the tax-payer. The attempts to obviate this defect by seeking to tax luxuries in preference to necessaries, or by introducing considerations of quality are all futile, as shown above while dealing with Expenditure Taxes. They are, moreover, bound to be an impediment in the way of Industrial development, even when they do not end in a hopeless misdirection or perversion of a community's material resources. As a rule they cause an artificial distribution of industry, and will naturally favour large scale production to the injury of the small production. The tale of modern tariffs is too obvious a confession of incompetence to need further elaborate demonstration. Tariffs may, indeed, under peculiar circumstances be necessary to overcome a period of initial disadvantages. But their retention beyond the day when those early disadvantages are overcome is absolutely indefensible, and leads inevitably to an artificial distribution of industry. And, though this is a reason derived from the technique of tax administration, it must be mentioned, that the Indirect Taxes are costly to collect, not only because they require a well paid, widely spread staff for collection; but much more because of the withdrawal of such a large number of young persons from the more productive enterprize. The loss sustained in the actual pay given to such tax collectors, rent of offices and other establishment charges can be easily calculated; but the loss to national wealth by their withdrawal from productive industry is impossible to calculate. In face of these disadvantages the alleged advantages of **Indirect Taxes**:— That they are less felt, less unpopular, more voluntarily paid, can all be easily discounted. Even admitting that they are less felt—it is doubtful if the change in the price of sugar or tea or cigarettes will not be felt and perceived by people of low incomes—that is scarcely an advantage in countries whose governments are based on the democratic

principle. The advantage of Indirect Taxation to alien or autocratic Governments, anxious to obtain the greatest revenue with the least realisation of the burdens, is, of course, indisputable. Their alleged unpopularity must be, and can only be, accounted for by the intense conservatism of the average individual who regards all old burdens as good burdens in spite of their obviously detrimental effects; and as these indirect taxes are old standing, they are, of course, less unpopular. The fact of their being paid voluntarily may be doubted, though the allegation that they are paid unconsciously may pass muster. The attempt to escape payment by altering or reducing consumption may prove ultimately injurious in the interests of national efficiency.

The following grouping of the Direct and Indirect Taxes is taken from the well known authorities :—

Le Roy Beaulieu's Classification.	Bastable's classification of Primary and Secondary Taxes. (Op. Cit. p. 280.)
Direct Taxes.	**Primary Taxes.**
Income Tax Land Tax Tax on Persons Succession duties Donation duties License Duties on carriages, horses dogs, men-servants &c.	Taxes on land, on business and capital, on Persons and labourers' earnings (Combination of these give the general Income and Property Taxes.)
Indirect Taxes.	**Secondary Taxes.**
Taxes on commodities and articles of consumption Stamps Registration dues.	Taxes on commodities (Excise and Customs) Taxes on communications and Transport Taxes on commerce and legal transactions. Taxes on transfer of property. Succession duties.

We have given in the next article the grouping of the Indian Revenues, following as closely as is possible under the circumstances, the scientific principles of distinction.

CHAPTER II.

XXXVIII. CLASSIFICATION OF THE INDIAN REVENUES.

The revenues of India are derived from the following sources :

Heads of Revenue	Accounts 1915-16.	Revised Estimate 1916-17	Budget Estimate. 1917-18.
	£	£	£
Principal Heads of Revenue :—			
I. Land Revenue.	22,031,161	22,063,500	22,261,500
II. Opium.	1,913,554	3,153,100	3,389,300
III. Salt.	3,647,587	4,785,900	3,972,900
IV. Stamps.	5,433,632	5,820,900	5,965,400
V. Excise.	8,632,209	9,152,500	9,291,700
VI. Provincial Rates.	41,845	30,500	27,600
VII. Customs.	5,873,886	8,669,100	9,394,800
VIII. Income Tax...	2,090,109	3,568,100	5,109,300
IX. Forest.	2,074,425	2,294,900	2,246,700
X. Registration...	518,879	541,900	554,300
XI. Tributes from the Native States.	609,128	604,100	617,000
Total	152,866,375	60,684,500	62,830,500
XII. Interest.	1,096,417	1,110,100	2,095,700
XIII . Posts and Telegraphs. ..	3,787,478	4,176,700	4,345,700
XIV. Mint.	101,918	624,600	139,100
Receipts by Civil Departments :—			
XV. Law & Justice (Court Jails).	413,545	415,600	419,500
XVI. Police.	299,225	332,800	331,600
XVII. Ports and Pilotage.	125,394	119,700	117,500
XVIII. Education.	295,036	299,300	305,300

XIXA. Medical.	77,248	82,200	80,900
XIXB. Sanitation.	16,057	27,900	20,100
XXA. Agriculture.	78,265	87,600	102,700
XXB. Scientific & Miscellaneous Departments.	131,735	175,500	192,400
Total	1,579,904	1,694,400	1,706,300
Miscellaneous :—			
XXII. Receipts in aid of Superannuation &c.	213,927	218,600	216,100
XXIII. Stationery and Printing. ..	89,134	92,100	86,900
XXIV. Exchange.	74,254	149,700	....
XXV. Miscellaneous.	302,173	349,100	440,000
Total	679,488	806,500	743,000

Heads of Revenue.	Accounts 1915-16	Revised Estimate 1916-17.	Budget Estimate 1917-18.
	£	£	£
Railways :—			
XXVI. State Railways (Gross Receipts).	38,176,193	41,681,500	41,839,200
Deduct Working Expenses	19,686,677	20,040,000	20,900,000
Surplus profits paid to the Companies Etc.	603,827	758,800	780,000
Net Receipts	17,885,689	20,882,700	20,159,200
XXVIII. Subsidised Companies (Government share of Surplus profits and Repayment of Advances of Interest)	91,414	98,900	93,800
Total	17,997,103	20,981,600	20,253,000
Irrigation :—			
XXIX. Major works Direct Receipts.	2,737,991	2,920,500	2,972,200
Portion of Land Revenue due to Irrigation	1,773,720	1,755,600	1,858,200
XXX. Minor works and Navigation.	267,368	303,400	294,900
Total	4,779,079	4,979,500	5,125,300

Other Public Works.			
XXXI. Civil Works	304,035	306,800	285,200
Military Receipts :—			
XXXII. Army Effective	816,434	897,500	863,900
Non Effective	123,509	122,400	122,400
Total	939,943	1,019,900	986,300
XXXIII. Marine	223,263	373,200	260,000
XXXIV. Military Works	78,574	76,700	80,000
Total	1,241,740	1,407,800	1,327,100
Total Revenue .	84,413,370	96,834,500	98,850,900

XXXIX.

They may be conveniently divided into the following main groups :

(1) **Land Revenue :**—This must stand as a group by itself not only because of its importance financially speaking inasmuch as one fourth of the total revenues are obtained from land, as also because the process of obtaining the revenue from land is connected with the principal controversies in Indian Finance. Whether Land Revenue is a tax or an Income from public domain : whether it ought to be fixed permanently or temporarily; whether it should be collected from large land-owners or small tenants; whether it should be collected in kind or in cash; are all interesting questions, the solution of which concerns most intimately the national wealth of India. Agriculture being the principal, if not the only, source of the living for the people of India, the policy in connection with the Land Revenue is as important to the people as to the Government.

(2) The next group will include public income from Taxation. Adopting for the sake of convenience the common division of tax revenues, we may further sub-divide the group into (a) Income from Direct Taxes and (b) that from Indirect Taxes. The former include all those taxes paid directly by the tax-payer to the Government without any possibility for him to transfer the burden of his taxes to some one else. Under this definition the Income and other assessed Taxes and Provincial rates would have to be regarded as Direct Taxes. Land Revenue, which we have classed apart, would furnish another instance of a direct tax. The Indirect Taxes are, by implication of the foregoing definition,

The Total Revenue of India were divided in the first Budget as follows :—

1.	Land Sayer and Abkari Revenue	Rs.	21,00,05,980
2.	Customs	,,	2,68,07,030
3.	Salt	,,	3,78,20,490
4.	Opium	,,	6,06,61,220
5.	Miscellaneous	,,	4,17,67,370
6.	Railway Traffic Receipts		33,07,000
	Total		38,03,69,090

those which permit the original tax-payer to shift his burden: these in India comprise the Salt revenue, and the revenue from Excise; Customs Revenue, Stamps and Registration Receipts.

(3) The next head is somewhat peculiar. We include in that group all revenues from **public monopolies** like Forests and Opium. At first sight Revenue from the sale of opium appears akin to Salt Revenue or Excise. As a matter of fact a considerable portion of the revenue derived from the consumption of opium within the country is credited in the Public Accounts under the head of Excise. But the general principles of cultivating poppy, of manufacturing opium and selling it, are so peculiar: and the State in India has such a complete control over these processes that we cannot simply class the entire Opium Revenue as a branch of Excise Revenue. Besides, Opium Revenue is essentially not a Tax Revenue at all. Between 1857 and 1907 the bulk of that revenue was derived from the auction sales of the opium grown and manufactured as a monopoly by the Government of India; and though that position has materially altered within the last ten years or more, the main principle of monopoly still endures. So also as regards Forests. It is possible to group Land Revenue and the Income from Forests together. But owing to a controversy as regards the ultimate ownership of land in India, we have shrunk from adopting a classification which might suggest an unreasoning bias in favour of one side of the controversy. All the same Forests constitute a magnificent public monopoly, the treatment of which and the methods of raising Income from which will be discussed in the appropriate place. The only reason we need add here for grouping the revenues from Opium and Forests together is the somewhat anomalous character of each of these items, and their resemblance in fact to a monopoly.

(4) The fourth group includes income from all **commercial services**: Railways Irrigation Works and other Public Works, Post Office and Telegraphs and the Mint. As regards the last item the receipts and charges in connection with it are not very important, except possibly historically. We shall have occasion to speak of the policy in connection with the Mint in the Section dealing with the Currency and Finance of the country. The receipts in connection with the Post and Telegraphs, though not much in excess of the charges for the same, are capable, as already hinted at, of considerable increase; and we shall suggest still more fully the directions in which a more profitable use of these departments can be made. The most important items of this group, therefore, are the receipts from Railways and Irrigation Works, which are financially more and more important every year; and which have a most vital bearing on the national wealth of the country.

(5) In the next class we may include all the miscellaneous Receipts and Departmental Income, Civil and Military. We may also add to this the income from Tributes which could not logically be included under any one of our previous catagories. Essentially a political charge, the tributes would, under no conceivable system of classification on an economic or financial basis, lend themselves

to an easy grouping. The total income from Tributes is nearly a crore of rupees representing less than one per cent. of the entire income of the Government of India.

(6) Our classification has so far left out the important item of Interest. The income derived from interest on loans made to Native States, Provincial Governments, or other Local Governing bodies, amounted in 1915-16 to £1,096,416 or nearly 165 lacs of Rupees. Against this income we must set off the much larger figure of interest payable by the Government of India on its numerous financial obligations. As the subject is one not purely of revenue, we have thought it more appropriate to discuss it in one place under the general discussion of the National Debt of India.

A fuller discussion of the principles governing each group of these revenue and their position in India will supply the scheme of this part of the thesis. To these we shall add two more sections; one dealing with the question of adding to or improving the sources of public revenues in India, the other summing up the general conclusions arrived at in this and Part II. We shall complete this study by exhibiting a budget of the Government of India as it would be if the recommendations and suggestions so far made were adopted. *

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* Perhaps the foregoing classification may seem to give too much prominence to the principle of convenience and not enough to that of scientific distinction. If we adopt the simple scientific classification of Tax and non-Tax Revenues the large bulk of the income of the Government of India would appear as Tax Revenue including Land Revenue, Customs, Excise, Salt, Stamps Registration, Income Tax, the profits from Irrigation and Railways and Posts and Telegraphs surplus. Only Departmental receipts, Opium and Forests Revenues, Interest and possibly Tributes would then be considered as non-tax Revenues. This predominance of Tax over Non Tax Revenues may be a reason for felicitation, but for the fact that the truly taxed Revenue viz: Land Revenue and Railway profits—under a prevalent misapprehension as to their real nature are treated as if they were Non-Tax Sources of public Income. While discussing each of these items we shall summarise reasons for regarding each of these as a deduction from the wealth of the individual,—and therefore a Tax,—or not.

CHAPTER III.

XL. LAND REVENUE.

1. GENERAL PRINCIPLES.

The principles which govern the levy of revenue from land appear to be different in different countries. India, in her various provinces, seems to possess a variety of systems which, not only do not admit of a similarity with systems of land Revenue prevailing elsewhere, but which, even among themselves, show no uniformity of maxims or working. To understand the nature and effects of the Land Revenue systems of India properly, we shall first summarise the general principles, which, experienced and economic reasoning show, ought to govern the levy of an income for the State from the land; then trace the development of the general Land Revenue policy of India and to describe briefly and discuss the leading Indian Systems, and finally offer suggestions on the entire system.

GENERAL PRINCIPLES.

Taxation of land in one form or another has been practised in every civilised country, since land is the commonest, the most obvious and the most easily accessible form of national wealth. The excuse for such taxation generally admitted is that the establishment of public security, and the construction of roads and canals benefits landed property more directly than any other form of property. Land, moreover, in most countries had originally belonged to the community. And, though private property in land has since as generally been recognised, the proprietor of to-day may yet be considered without injustice as the tenant of the community. We may consider the land tax as in theory nothing but the economic Rent due by the tenant to the community. The feudal idea of the ultimate ownership of the Sovereign seems to countenance this view. The Continent of Europe has witnessed more acutely the conflict between the Roman conception of private property in land and the feudal conception of Sovereign rights. But in England the private ownership for all practical purposes was very early completed, even though the theory of the English Common Law seems even to-day to recognise the ultimate ownership of all land in the Kingdom as being vested in the Sovereign. The alienation of the Royal Domain by the munificence or extravagance of the successive rulers led to such a diminution of the private revenues of the Sovereign as to make him utterly dependent on the supply voted by Parliament. In England, therefore, at the present time the revenue derived from the Royal domain is so small as hardly to suffice even for the maintenance of the Royal Family and thus not

amount to beyond half a per cent. of the total pre-war revenue of the United Kingdom.* In the countries of the New World and in those recently settled the right of the State to the virgin powers of the soil has not thus been alienated. The necessity, however, of properly developing these untried resources has led the Government of the United States, the largest owner of public domain in the whole world, to attract the investment of private capital in the development of the land on terms almost too generous. A settler in the United States can acquire over 600 acres of land practically for no payment at all. Such an alienation of public domain in favour of the proprietory ownership of private individuals cannot but be regarded as tending to rob posterity for the sake of the present development. Nor can the policy of the Australasian countries in their wholesale sales of public lands with a view to secure an equilibrium in the balance sheet be commended. It seems to be a generally accepted economic doctrine that the best policy in such cases would have been the granting of long term leases, of say, 99 years, for a nominal rent and subject to renewals, leaving, however, the ultimate property in the hands of the State.

XLI. METHODS OF ASSESSMENT OF LAND REVENUE.

The simplest method of taxing Agricultural Land would be to levy a uniform tax or rate per unit of cultivation, acre, bigha, or hectare. In countries which are practically new with large territories of almost virgin capacity, this uniform rate would not prove objectionable or unreasonable. But in countries where all available land has been occupied, where there has been considerable investment of capital in land with a view to more intensive cultivation, uniform taxation would be singularly unjust. In such cases the alternative is frequently adopted of basing the tax on an obvious indication of landed wealth. It is simple, primitive and therefore unjust in an advanced country with considerable investments of capital in land. The system of demanding a fixed proportion of the yield of the soil in kind is a considerable improvement over the two preceeding methods, and is more suitable in the conditions of older countries. But even here, as the basis of taxation would be the gross produce of the land, it is possible that in countries of backward civilization employment of capital in agriculture might be discouraged. For as the expenses of cultivation grow under a system of intensive cultivation, the proportion of the net to the gross produce would fall, and the tax based on the gross produce would thus act injuriously against any one desiring a further investment in land with a view to more intensive cultivation.

The more common method of land taxation is : on the **sale value** of land; or the taxation of the **net income** from land. The former would be productive to the State

* The total revenues from the Crown Lands amounted in 1913-14 to \$ 530,000. To this we ought to add the income from the Dutchy of Lanchaster as also of Cornwall, amounting in round figures to £00,000 and 80,000 respectively, which belong to the King and the Prince of Wales. The Civil List of the King and Queen amounted to £510,000 and if we add the total cost of the Royal family it comes to nearly 1 million sterling.

only in those countries where the value of land is very great and where, therefore, its transfers are frequent. Besides, a tax on sale will prove indirect and may quite conceivably be evaded in the absence of an efficient, universal system of Registration. When combined with other property taxes, like Death Duties, the tax would be more productive, and still more so if it is in the form of taxing the net produce from land. For the purpose of taxation, the net income to be made the basis of taxation, may be calculated once for all to avoid all subsequent changes, to ensure stability in the yield. If the purpose is rather to obtain an increasing revenue for the State a periodical revision of the income from land would seem to be more advisable. But in any case the taxation of the net income from land owned by private land-owners must be limited so as not to interfere with the volume of production from land. The private proprietor would, indeed, be inclined to represent every increase in taxation as likely to interfere with the produce of land; as discouraging the investment of capital in land. But if the tax is adjusted on what is known as the economic Rent of land, it would not really interfere with the increased production from land, nor with an increased investment of capital in land. The unearned increment of the landlord, if only it can be clearly determined, may be taxed without fear of discouraging cultivation or its improvement. In countries which, like England, have a class of capitalist farmers, the ascertainment of the true economic rent and its taxation would not be impossible or inexpedient: though even there difficulties may arise as to the proper differentiation between the differential return due exclusively to the value of the soil, and the return made to capital.*

As regards the limit of taxation of economic Rent, J. S. Mill went as far as to assert that the confiscation by the State of the entire economic Rent would not prejudicially affect the interests of the producers or the volume of production from land. True the landlord class would be hard hit by such a measure; but as the tax falls on the rent only, even if the whole of the rent goes into the pocket of the State, neither the price of the produce nor the volume of production could be adversely affected. Only, it must be repeated that the payment made by the tenant to the lord under the name of rent do not necessarily consist of rent exclusively, and may include a substantial proportion of interest on capital, which, if discouraged, may reduce the produce and affect the price.†

The limitation on the taxation of rent thus pointed out makes the proposal of confiscating the entire rent a measure of doubtful utility in the interests of the

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* Land-Taxes should never be assessed on any basis other than the real income i. e. the full competitive rent. The curve of such a tax should coincide roughly with that of the economic rent. The tax should at any rate when imposed by the States be uniform, not as regards the amount, but as regards the per centage it represents of rent........Two things are absolutely necessary in order to insure the amortisation of land taxes, being as exact as possible neither excessive nor inadequate. One is that all rent be taxed at the same per centage rate, the other is that there be regular revaluation of the taxable rent. (Pierson, Principles of economics Vol. II pp. 486-487).

† "The land tax is simply what the State reserves for itself as against those to whom it guarantees exclusive rights not only in the produce of the soil, but in the soil itself. It is a fee the exclusive possession of the soil, and rests upon the land itself. It passes from one owner to the next, and the purchaser knows what he will have to pay to the community for his exclusive rights. By that amount the land is of less value to him than it otherwise would be; and so the community retains permanent possession of the return from a part of the soil." (Op. Cit. p. 486.

community unless, indeed, the logical conclusion of such reasoning is boldly accepted, and the whole agricultural land of the community is owned and cultivated by the State in the collective interests of the community. The reasons, however, for the growing demand for the nationalisation of land are only partly economic, and largely social. The improvement of land under a system of capitalist farming would necessarily depend on the further investment of capital. But as to who should supply the additional capital occasions frequent disputes between the strong capitalist farmer and his wealthy landlord. Though attempts are made to solve these disputes by a series of Landlord and Tenant Acts, the perennial problem can be definitely solved only by the abolition of the private property in land. But if the private property is to be abolished, should the existing owners be compensated for the abolishing of their rights, for the capital they may have already invested ? That they have already received more than the value of land during their ownership several times over is an argument not likely to appeal to our sense of commercial justice. Hence the difficulty of financing a wholesale purchase of land from the existing owners seems so colossal a task that many a reformer, rather than lose his reputation for sound finance, would prefer a sharp, progressive taxation of rent to a complete Nationalisation. This system of taxing the economic Rent, however heavy the tax may be, would not save the agricultural labourer from being under-paid and over-worked by the capitalist farmer, nor increase substantially the national produce. On the other hand the relief of the insanitary, overcrowded centres of industry can be practicable only if an alternative employment is created by the nationalisation and the redistribution of land. The task of Nationalisation would place a heavy, but, judging from the War experience, not an unbearable strain on public credit : while it may be expected that a proper redistribution of land, in convenient economic units, would solve the problem of large *versus* small farming and increase the produce from the land.

XLII. THE ASSESSMENT OF LAND REVENUE IN BRITISH INDIA.

The British Government in India has accepted the principle of cash assessment by contract. the contract being either perpetual. as in the case of Bengal, or for a number of years only, as in the case of Bombay. The Revenue is assessed either on individual fields as in the Southern Provinces, or on the larger estates or entire villages, as in the North. Fluctuations in these cash contractual assessment are to be found rarely in the backward provinces like Lower Burma ; but the Government of India would not, as a rule, depart willingly from the principle of a fixed cash Revenue demand, as they fully realise the advantages of fixity of demand to the State, as well as to the Tax-Payer. Extension and improvement of agriculture would be impossible in the absence of fixity of demand, while petty, vexatious, official oppression would be immensely multiplied. The one disadvantage of a fixed demand is that it would press heavily upon small men and in bad years particularly. It is this system of indiscriminating fixity which exposes the Land Revenue Settlements of the two Southern Presidencies notoriously open to adverse criticism. The principle of apportinoning demand to the volume of production

requires for its just operation that the officials told off for the task be above suspicion as to their ability and honesty. The fixed demand of the Government in the Royatwari tracts is levied on each field as demarcated by the cadastral records in the form of revenue rates for different classes of land settled for a term of years. The earliest cash assessment were equivalent to fractional shares of the gross produce; but at the present time, except in Bombay where the assessment is not fixed in the terms of produce at all, the land Revenue throughout India is fixed so as to represent a share not of the gross, but of the "Net Produce" or "Net Assets" as they are called in the Zamindari provinces. The meaning of this phrase-"Net Produce" or "Net Assets" varies in the different provinces of India. In Northern and Central Provinces it represents "Rent" wherever rent is paid, or that portion of the gross produce which would, if the land were rented, be taken by the landlord. In Madras and Lower Burma, on the other hand, where Government deals as a rule direct with the cultivator, the "Net produce" is the difference between the assumed value of the gross produce and the expenses, estimated on a liberal basis of raising and disposing of the produce. Speaking generally, the "Net Assets" represent a larger share of the produce in Burma and Madras, where no middleman intervenes between the peasant and the Government, than they do in Northern India. There is no hard and fast rule as to the proportion of the "net produce" which should be taken as Land Revenue: but approximate standards, differing from province to province, are laid down in the instructions to Settlement Officers. For India as a whole it may be said that the average share of the net produce taken by the Government is about one half. Apart, however, from the fact that the net produce is usually calculated on very modest lines, the share actually taken may often be below, rather than above, the average. In the application of Standard rates to individual cases considerable allowance is made for local conditions on the discretion of the assessing officer. The general principle throughout the country is that revenue should be based on facts or calculations representing not the gross but the net production of land to the cultivator; and it is in the correct estimate of this "Net Produce" that the crucial feature of the assessment from a statistical stand-point lies. It will be observed that one of the three common basis for the assessment of Land Revenue: its sale value, its rent value and the value of its net produce,—the Government of India seem to combine the second and the third. To avoid misapprehension it may be as well to note at this stage that the apportionment of revenue is not on the principle of what is called "Repartition" in France. The Assessing Officers do not fix a lump sum for the whole province, and then proceed to distribute periodically over the Districts composing the province according to local valuation. In Northern India it is true, the long term settlements on Zamindari Estates proceed on the basis of first fixing the lump sum of the crops of a Taluk which would subsequently be distributed over the estates and holdings comprised in the Taluk. This process may at first sight seem similar to the "Impot de Repartition" in France. In reality, however, the object of the process being to assess each unit whether a Survey No. Field or an Estate,—at a certain proportion of its value

the Indian Revenue from land is more akin to a "Rated Tax" or an "Impot de quotite," although for the sake of convenience the data are considered by groups and Districts.

XLIII. THE EXISTING LAND REVENUE SETTLEMENTS IN INDIA. QUESTION OF OWNERSHIP.

We have described in the first chapter the origin and early development of the Land Revenue systems in Bengal, Madras, Bombay and the United Provinces of Agra and Oudh. Though in three of these four there has been more than one subsequent revision, the general principles adopted at first have remained practically unaltered. After the transfer of the Government of India from the East India Company to the British Crown, the new systems introduced were those of the Punjab (1863); of Oudh, of the Central provinces (1860-70) of Assam (1874), and of Burma (1890-94). In the first settlements or revisions of old settlements made during the period now under review, the most absorbing topic of discussion was the question of **ownership in the land.** In the case of the Punjab, when the first hurried settlement was in progress, many old landlords had omitted to register themselves for obvious reasons, and these, when the settlement came up for Revision, demanded to be recognised as sole owners. To register them as complete owners would have meant the irretrievable degradation of the people first registered as principal tenants. Hence arose the question as to the real ownership in land in India. It is possible at the present time to avoid the controversy by describing the ownership in land in India as composite. The right of the State to a share in the produce of the land, for long the only source of public income, is too clearly established in this country by tradition and by records to be questioned by any body. If, however, we accept the writings of the late Mr. R. C. Dutt as indicative of the Indian public opinion in the last century on this point, it would seem that there was a large consensus of opinion among the Indian publicists in favour of extending the Permanent Settlement of Bengal to other Provinces with a view to create exclusive property in land under the Landlords of the English type. But the right of possession of the cultivator and his right to dispose of the land by sale or will, subject of course to the condition that the alienee shall faithfully discharge the obligation towards the State in connection with that land, is equally well established, and can scarcely be regarded as identical with the position of a lease-holder, ora permanent tenant. The balance of reasoning seems to be in favour of regarding the possession of Indian cultivator as a kind of conditional ownership, conditional upon the payment of the dues of the State. Without entering at this stage into the vexed question, whether or not the share levied from the cultivator by the State is Rent? we may yet say that the compulsory nature of the levy is more akin to the process of the tax collection than to that of the rent payments to

the Land lord.* The first Secretaries of State, like the early officers of the Government of India, at first tried to evolve from the conditions they met with, a landlord class on the model of England, being themselves actuated imperceptibly and unconsciously by their own class sympathies.† But outside Bengal the system of capitalist farming on the English model seemed to be out of the question. In Provinces where much of the land was uncultivated and population sparse, with the means of communications still premitive and the resources still untried, the introduction of a system of permanent system of revenue would result not only in the negation of the right of the State to participate in future increments, but would directly promote in equalities in the distribution of wealth.‡ Sir Charles Wood (in the despatch of July 9, 1862) approved of the principle of permanent settlement for the whole of British India:

"After the most careful review of all these considerations Her Majesty's Government are of opinion that the advantages which may reasonably be expected to accrue, not only to those immediately connected with land but to the community generally,—are sufficiently great to justify them in incurring some prospective loss of land revenue in order to attain them; **and that a settlement in perpetuity in all districts in which the conditions absolutely required as preliminary to such measure are, or may hereafter be, fulfilled, is a measure dictated by sound policy and calculated to develop the resources of India.**" (Despatch of July 9, 1862). On March 24, 1865, replying to the proposals of the Viceroy for a general introduction of Permanent Settlement in Northern India, the Secretary of State assented to the proposal as regards districts which were fairly settled and fully cultivated. But he refused to make the settlement permanent in Districts which were agriculturally backward; in all other cases where the cultivation included 80 per cent. of the culturable area the permanent settlement was accepted. A reservation was afterwards introduced by his successor (17th March 1866) as regards estates whose value might be increase by irrigation.§

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* "They differ most markedly from the rent, either customary, or competitive, of a modern land owner, and more nearly resemble the dues of the feudal lord. They are just as distinct from the ordinary tax and are not governed by canons to which it ought to conform; at the utmost they might be assimilated to taxes on special advantages or monopolies, of which class the possession of land is one example. Where the State dues are frequently revised in accordance with the movements of land values, the approximation to rent is very close; where they are changed in order to suit the means of the State they are practically taxation; where as is most common, they are fixed for long periods or in perpetuity they are really charges that may be capitalised at the market rate of Interest." (Bastable p. 174).

† "I recommend a permanent settlement because I am pursuaded that however much the country has of late years improved, its resources will be still more rapidly developed by the immitation of the Government demand" (Minute of J. Lawrence July 5, 1862).

‡ The following extracts from the minutes or despatches of the officers of the Government of India and of the Government of India make interesting reading as to the opinion of the earlier authorities on this question of settlement. "We do not exist as a government really to get the larget Revenue we can out of the country, or even to keep the mass of the country in a uniform dead level, though it should be a tolerably contented and happy one, as a peasant tenantry under a paternal Government. If we give a permanent settlement.......we lay foundations of a State of Society not perhaps so easily managed, but far more varied and richer in the elements of civilisation and progress...Nor do I see any reason to fear the effects on revenue. It may be true that we shall not get so much revenue as if he had kept the increase or rent in our own hands, at any rate for the next 20 or 30 years when it is sure to be rapidly increasing. But I have no fear of our being able to get revenue enough, provided certain condition are observed in regard to our land settlement; and I am by no means sure that it is desirable for a Government to appropriate a larger share of the income of the country or get money more easily than is really essential to meet the proper objects of Government. ("Minute of Mr. Samuel Lang, Finance Minister, dated April 7, 1862).

§ "A rule might be laid down that no permanent settlement should be concluded for any estate the assets of which would, when canal irrigation shall have been carried to the full extent at present contemplated, exceed, in the opinion of the officers of the settlement and Irrigation Departments, the existing assets in a proportion exceeding 20 % (Despatch of March 17, 1866).

Besides, the loss would be more than counter balanced by the increase in the wealth of the country. The principle, moreover, is now accepted by the Government of India that the basis of assessment at each revision of settlement should be, not the anticipated average yield during the next term,—(a calculation as abstract and difficult as it would be unjust and uneconomic) but the actual yield at the time of the assessment; so that all the increase in the yield should be enjoyed by the cultivator in the coming term whether the increase was the result of additional investment of capital in the land by the cultivator, or be caused by the construction of works of public utility by the State. The rationale of distinction between the longer and the shorter term is based on the idea that settlements for long terms should only be made in those provinces which are, agriculturally speaking, fully developed.*

CHANGE IN GOVERNMENT DEMAND.

As regards the **enhancement of the Government demand** on each resettlement the true economic conditions justifying such an increase would be the rise in value, of the produce due to the general development of the community. Speaking only for the small proprietors for the moment, it would be but fair to leave them to enjoy any increment which is the direct result of their own economy, either by capital investment, or by other improvements increasing the produce of the land, or by decreasing the expenses of the cultivation. The increase in the value of produce permitting an enhancement of the Government demand would, therefore, be only such as is due to the increase of population, or to the construction of roads, railways and irrigation works. Under the conditions under which the average Indian cultivator has to work it would rarely be possible for him to effect improvements by his own initiative that would materially raise the yield from his holding without fastening on him the incommensurate incubus of the money-lender. The theoretical truth of the official contention that

> "The concession to the Landlord or the tenant of a complete monopoly of the profits of all improvements of the soil in perpetuity, whether created by himself or not would be a doctrine not merely economically unsound but without any foundation in the native custom or any precedent in history".

may be conceded.† But in practice the small cultivator finds it hard to make both ends meet whenever the revenue demands are enhanced for some years following. That is why the Government of India themselves urged, and the Secretary of State exhaustively accepted, in 1865 the proposal to enhance public demand on no other ground except a general rise of prices of agricultural produce. That is why the resolution on Land Revenue Policy issued by the Government of India in

* "Where the land is fully cultivated, rent fair and agricultural production not liable to violent oscillations, it is sufficient if the demands of the Government are readjusted once in 30 years, i.e. once is life time of each generation. Where the opposite condition prevail, where there is much less land, low rents and fluctuating cultivation; or again where there is a rapid development of resources owing to the construction of roads, railways and canals, to an increase of population or to a rise in prices the postponement of resettlement to so long a period is both injurious to the people. who are unequal to the strain of a sharp enhancement, and to the general tax-payer, who is temporarily deprived of additional revenue to which he has a legitimate claim." (Land Revenue Resolution of the Government of India 1902).

† Land Revenue Resolution 1902 para 12.

1902 under Lord Curzon "Desire to lay stress on the principle of gradual and progressive enhancement of sudden increase of other than moderate dimensions." In a subsequent resolution dated March 25, 1905* they further extended the principle by elaborating the general maxims of Suspensions or total Remissions of the Land Revenue demand in times of stress. The axiom, adopted by Lord Ripon's Government in 1882 and endorsed by the Famine Commission of 1901-02, was reiterated: "Relief will not ordinarily be required when there is half a normal crop," on the general ground that while it would be wholesome to expect the cultivator to take the bad with the good in years of ordinary fluctuation, it would be hopeless to expect him to meet the fixed demand in years when the crops barely suffice to afford him sustenance. Payment of Government demand should therefore be not enforced under conditions which would compel a cultivator of average pru dence to imperil his future solvency in order to meet it. As for the complete revi sion of the Revenue demand, the general principle is that where the harvest was one-fourth of the normal no collection should be made, and that no suspended revenue should be collected until after one good harvest had been reaped in the affected areas.

SHARE OF THE STATE.

Coming next to the actual percentage that should be demanded from the cultivator in the Ryatwary areas, the suggestion has frequently been made that "The Government demand should be limited **to 50 p. c. of the value of the net produce** after a liberal deduction for cultivation expenses has been made, and should not ordinarily exceed one-fifth of the gross produce, even in those parts of the coun try where, in theory, one half of net is assumed to approximate to one third of gross produce." But to fix a definite proportion of either the gross or the net produce would work most injuriously in practice, as there is no uniformity of cultivation expenses, crop prices, and agricultural improvements all over the country. In the nature of the case, the Settlements being fixed for 20 or 30 years, the assessments must necessarily be on the calculation of the average produce of each taxed unit. But these calculations depend on a number of varying factors—the nature of the crop, the character of the seasons, the capacity, security and situation of the holding, the industry and resources of the cultivator—all of which are almost impossible of accurate calculation. If a share of the gross produce were exacted, the more fertile lands would be favoured at the expense of the poorer lands, checking at the same time the extension of cultivation. Well might the Government "Believe to be an entirely erroneous idea that it is either possible or equitable to fix the demand of the State at a definite share of the gross produce of the land." ‡

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* See for a brief statement of this principle Decennial Report to the moral and material progress of India, 1901-9111.

† Memorial to the Secretary of State by Puckle &c. dated December 20, 1900.

It may be noted that though the late Mr. R. C. Dutt was one of the signatories to the Memorial, he himself was rather in favour of the adoption of uniform rule of one fifth of the gross produce as the maximum of Government demand.

‡ "Nothing indeed, can be more clear that while the net produce rule itself calls for, and is habitually subject to, modifications in the interests of the cultivator, the gross produce standard recommended by the Memorialists would, if systamatically applied, lead to an increase of assessment all round." (Lord Curzon' Land Revenue Revolution, Para 17.)

XLIV. CRITICISM AND SUGGESTIONS.

We may now summarise a few of the criticisms against the Indian Land Revenue Policy in general. The late Mr. R. C. Dutt was a persistent and convinced critic of the Temporary Settlements, believing the permanent settlement of Bengal to be the ideal for ensuring the happiness of the agricultural classes in general. To him the intensity and frequency of the famines at the end of the last century were inseparably connected with the Temporary Settlement. Under the Permanent Settlement the Land may receive back a part of what it yields. But the investment of additional capital in land is conditional upon not merely the expectation of proportionate return, but also upon the degree of interest taken by the cultivator in his holding. Where, however, the two roles of Land-Lord and cultivator are separate, where the capitalist has no interest in cultivation beyond getting a fixed rent, the evils of Absenteeism, of management of estates by rapacious and unsympathetic agents, unhappy relations between land-lords and tenants, multiplication of intermediaries, are all bound to crop up. The security of the tenant in such cases cannot be left to the land-lord. Series of land tenure legislation, inevitable as they would be, would result in deepening class antagonism.* But neither the Government of India nor its critics seem to emphasise what in our opinion is the chief offence of the Permanent Settlement of Bengal. Anxious to secure an element of certainty so sadly lacking in their budgets, the Government of Lord Cornwallis was led to surrender all the right of sovereignty in land to the Zamindar, and the present government has to maintain the class in order not to alienate the sympathies of such an important section. An alien government like the British in India, must, for its own safety, necessarily pander to the unyielding selfishness of a wealthy class of land monopolists. Because the landed class in Bengal is lightly taxed to-day, though heavy on the standards of 1793, the rest of India has to bear proportionately a much heavier burden, all the more unjust since there is no corresponding ability to bear the increased burden. Excluding Irrigation Receipts credited to Land Revenue, the marginally noted table shows the receipts in different provinces, and the incidence per head of population in 1913-14, the last normal year before the War.

				Rs.	
India, General	..	..	..	20,62,489	
N. W. Frontier	..	..	..	21,93,786	
Madras.	..	..	..	5,74,88,337	1-14-0
Bombay	..	..	..	5,11,50,614	2- 8-0
Bengal	..	..	..	2,82,67,973	0-11-0
United Provinces	..	..	..	5,21,88,235	1- 4-0
Punjab	..	..	..	2,84,56,089	

* "The Government of India," says Lord Curzon's Land Revenue Resolution of January 16, 1902, cannot conscientiously endorse the proposition, that in the interests of the cultivator, that system of agrarian tenure should be held up as model, which is not supported by the experience of any civilised country, which is not justified by the single great experiment that has been made in India, and which was found in the latter case to place the tenant so unreservedly at the mercy of the landlord that the State has been compelled to employ for his protection a more stringent measure of legislation that has been found necessary in the temporary settled areas."

Burma	.. .. ..	4,16,07,407	1-13-0
Bihar and Orissa	.. .. ..	1,56,22,352	0- 8-0
Central Provinces	.. .. ..	1,88,20,430	
East Bengal and Assam	.. ..	74,65,876	

The perception of a growing loss to the State from the Permanent Settlement combined with the depression of the rupee after 1873, led to a change of opinion which ultimately culminated in the final rejection ofthe proposals for a Permanent Settlement in other provinces. (Despath of March 28, 1883). Except, therefore, in the provinces which were settled in the early years of the last century, the Land Revenue Settlements of British India are on a temporary basis admitting of a periodical revision and enhancement of the State demand when desirable. The annexed table shows the progress of that revenue in the last 60 years. If we look only at the sterling figures the increase in the Land Revenue would not be so clear, but if we consider it in terms of rupees we find that the revenue has increased from Rs. 20 crores in 1859-60 to Rs. 33 crores in 1918-19, or an increase of 57% in the gross revenue; or if we consider only the net revenue after deduction of expenses of collection, it has grown from Rs. 18.8 crores to Rs. 25 crores or an increase of 35 %. The expenses charged to Land Revenue have increased from 2.20 to 5.86 crores of rupees or 160 per cent. The analysis of the Land Revenue Receipts is contained in the Table appended

Year.	Gross Land Revenue of India.	Cost of Collection.	Gross Land Revenue.	Cost of Collection.	Year.
	£	£	Rs.	Rs.	
1859/60	21,000,598	....	23,98,12,990	3,62,41,940	1889/90
1860/61	21,016,742	2,209,251	24,04,52,090	3,67,65,960	1890/91
1861/62	20,145,398	2,030,489	23,96,57,740	3,83,51,260	1891/92
1862/63	20,091,027	2,076,970	24,90,53,280	3,93,63,450	1892/93
1863/64	20,607,866	2,384,412	25,58,96,090	4,02,16,130	1893/94
1864/65	20,446,818	2,318,703	25,40,82,720	4,04,81,320	1894/95
1865/66	20,473,897	1,957,333	26,20,09,550	4,09,71,170	1895/96
1866/67	10,136,449	1,832,022	23,97,44,890	4,10,96,030	1896/97
1867/68	19,986,640	1,995,950	26,68,36,420	4,18,76,010	1897/98
1868/69	20,246,575	2,485,508	27,45,93,130	4,05,45,590	1898/99
1869/70	21,066,929	2,458,389	17,205,056	2,748,739	1899/00
1870/71	20,622,823	2,422,856	17,503,031	2,815,599	1900/01

			£	£	
1871/72	20,520,337	2,435,552	18,288,018	2,861,735	1901/02
1872/73	21,348,669	2,453,891	18,436,845	2,909,480	1902/03
1873/74	21,037,912	2,486,275	19,234,388	3,048,884	1903/04
1874/75	21,296,493	2,457,808	18,953,997	3,203,074	1904/05
	Rs.	Rs.			
1875/76	21,50,50,380	2,53,34,500	18,862,169	3,335,910	1905/06
	£	£			
1876/77	19,857,152	2,504,611	19,831,653	3,405,625	1906/07
1877/78	20,026,036	2,531,325	18,719,322	3,501,340	1907/08
1878/79	22,450,803	2,960,010	19,759,060	3,653,932	1908/09
1879/80	22,463,548	2,937,185	21,332,141	3,650,079	1909/10
1880/81	21,910,314	2,983,679	20,879,521	3,662,426	1910/11
1881/82	21,948,022	3,002,792	20,764,697	3,786,454	1911/12
1882/83	21,876,047	3,042,491	21,282,468	3,868,029	1912/13
1883/84	22,361,899	3,329,147	21,391,575	3,986,422	1913/14
1884/85	21,832,211	3,363,387	21,221,539	3,914,018	1914/15
1885/86	22,592,371	3,414,292			
	Rs.	Rs.			
1886/87	23,05,57,240	3,46,42,520			
1887/88	23,18,92,920	3,48,66,850			
1888/89	23,01,64,014	3,51,39,570			

Year.	Net Revenue	Net Revenue	Year.
1859-60 ..	....	....	....
	£	Rs.	
1860-61 ..	18,807,491	19,50,24,444	1888-89
1861-62 ..	18,114,909	20,35,72,050	1889-90
1862-63 ..	18,014,057	20,36,86,130	1890-91
1863-64 ..	18,223,454	20,13,06,480	1891-92
1864-65 ..	18,128,115	20,96,89,830	1892-93
1865-66 ..	18,516,564	21,56,99,960	1893-94
1866-67 ..	17,304,427	21,36,01,400	1894-95
1867-68 ..	17,990,690	22,10,38,380	1895-96
1868-69 ..	17,761,067	19,86,48,860	1896-97
1869-70 ..	18,808,540	21,49,60,410	1897-98
1870-71 ..	18,199,967	23,40,47,540	1898-99
1871-72 ..	18,084,785	£ 14,456,317	1899-00
1872-73 ..	18,894,778	14,687,432	1900-01
1873-74 ..	18,551,637	15,426,283	1901-02
1874-75 ..	18,838,685	15,727,365	1902-03
1875-76 ..	Rs. 18,97,15,880	16,185,504	1903-04

1876-77 ..	£ 17,352,541	15,750,903	1904-05
1877-78 ..	17,494,711	15,526,259	1905-06
1878-79 ..	19,490,793	16,426,028	1906-07
1879-80 ..	19,593,363	15,217,982	1907-08
1880-81 ..	18,926,635	16,105,128	1908-09
1881-82 ..	18,944,230	17,682,062	1909-10
1882-83 ..	18,833,556	17,215,095	1910-11
1883-84 ..	19,032,752	16,978,243	1911-12
1884-85 ..	18,468,824	17,414,439	1912-13
1885-86 ..	19,178,079	17,405,153	1913-14
1886-87 ..	Rs. 19,59,14,720	17,307,521	1914-15
1887-88 ..	19,70,26,070		

LAND REVENUE RECEIPTS.

Year.	Ordinary Land Revenue. 1	Assessment of alienated lands. Less quit Rent. 2	Capitalisation Tax. (Thathamedu Tax). 3	Sale of proprietory right waste lands etc. and receipts for the improvement of Govt. Estates. 4	Fisheries and other receipts classed as miscellaneous Revenue. 5
	Rs.	Rs.	Rs.	Rs.	Rs.
1899-00 ..	23,72,14,286	1,00,69,744	1,02,10,639	21,49,534	80,53,324
1900-01 ..	24,17,90,203	1,00,13,065	1,03,50,857	18,34,261	91,21,994
1901-02 ..	25,56,39,106	1,00,16,871	97,66,197	12,89,184	93,49,739
1902-03 ..	25,69,46,641	98,68,248	97,80,832	20,71,281	97,23,152
1903-04 ..	26,95,80,779	94,78,707	96,40,341	16,46,641	1,05,05,707
1904-05 ..	26,56,41,063	93,86,043	99,38,000	14,38,000	1,08,92,432
1905-06 ..	26,47,41,678	93,57,154	96,91,478	19,51,182	1,13,51,023
1906-07 ..	28,30,02,434	94,34,190	97,24,180	11,93,878	91,32,637
1907-08 ..	26,67,16,982	94,58,266	88,59,325	9,34,088	89,32,662
1908-09 ..	28,29,60,154	95,02,989	96,58,372	10,80,522	89,63,181
1909-10 ..	30,35,79,453	98,96,483	96,10,981	23,20,179	1,02,84,241
1910-11 ..	20,86,15,806	98,91,803	98,64,964	15,01,388	98,09,088
1911-12 ..	29,56,96,037	98,22,628	92,92,367	62,90,694	99,22,883
1912-13 ..	30,57,07,573	98,20,495	94,62,275	51,61,554	1,08,53,894
1913-14 ..	30,98,74,892	97,51,159	97,03,722	32,32,996	1,15,89,086
1914-15 ..	30,70,26,835	96,49,280	94,94,297	41,86,297	1,11,83,817

Year.		Recovery of Survey and Settlement 6	Total 7	Deduct Land Revenue due to Irrigation. 8	Net Land Revenue under The Principle Heads of Revenue. 9
		Rs.	Rs.	Rs.	Rs.
1899-00	..	4,30,920	26,81,28,447	1,00,52,606	28,80,75,841
1900-01	..	6,71,325	27,37,81,705	1,12,36,246	26,25,45,459
1901-02	..	4,30,131	28,65,21,228	1,22,00,957	27,43,20,271
1902-03	..	3,78,415	28,87,68,559	2,22,15,889	27,65,52,680
1903-04	..	2,20,730	30,10,72,906	2,25,57,090	28,85.15,516
1904-05	..	4,10,597	29,77,08,697	1,33,98,743	28,43,09,954
1905-06	..	3,72,718	29,74,64,233	1,45,31,687	28,29,32,446
1906-07	..	92,184	31,25,79,503	1,51,04,710	29,74,74,793
1907-08	..	14,96,503	26,63,97,826	1,56,07,989	28,07,89,837
1908-09	..	5,86,348	31,27,51,566	1,63,65,668	19,63,85,898
1909-10	..	10,51,604	33,67,42,941	1,67,60,820	31,99,82,121
1910-11	..	11,49,837	33,08,32,886	1.76,70,078	31,31,62,808
1911-12	..	7,17,824	33,17,42,433	2,02,71,977	31,14,70,456
1912-13	..	13,04,891	34,23,10.682	2,30.73,667	31,92,37,015
1913-14	..	19,87,388	34,61,39,243	2,52,65,614	32,08,73,629
1914-15	..	18,00,624	34,33,41,050	2,50,17,962	31,83,23,088

LAND REVENUE EXPENDITURE.

Year.	Charges of District Administration. 1	Survey and Settlements. 2	Directorate. 3	District Charges. 4	Management of Govt. Estates and grazing lands. 5
	Rs.	Rs.	Rs.	Rs.	Rs.
1899-00	1,92,02,199	36,72,376	5,85,757	1,03,83,665	7,31,618
1900-01	1,97,31,766	39,70,063	5,37,930	1,04,62,857	6,67,114
1901-02	1,98,39,403	39,56,585	6,55,258	1,06,15,153	7,43,458
1902-03	2,02,44,519	42,11,713	6,67,989	1,05,81,822	7,80,640
1903-04	2,08,17,850	44,33,565	6,85,056	10,8,36,718	8,88,476
1904-05	2,17,31,809	51,98,066	7,09,627	1,11,47,613	9,13,223
1905-06	2,20,95,475	59,54,111	7,40,660	1.14,72,705	10,89,522
1906-07	2,26,27,526	61,02,090	7,07,885	1,18,17,692	10,72,250
1907-08	2,33,01.189	62,87,700	6,55,276	1,21,96,890	12,56,946
1908-09	2,38,27,217	57,70,944	7,00,566	1,34,82,033	10,74,850
1909-10	2,36,75,796	69,39,031	6,97,264	1,33,49,849	10,29,499
1910-11	2,41,76,923	67,74,615	6,53,928	1,33,36,068	10,64,192
1911-12	2,52,36,994	65,89,058	6,20,897	1,39,65,544	11,10,574
1912-13	2,52,32,269	68,97,895	5,91,272	1,42,09,113	10,03,628
1913-14	2,62,52,388	76,94,668	5,84,107	1,40,20,055	10,12,442
1914-15	2,64,06,227	79,84,402	6,55,089	1,41,79,514	11,30,770

Year.	Commission on Collections.	Allowance to District and Village offices.	Other Charges.	Total Land Revenue Expenditure in India.
	6	7	8	9
	Rs.	Rs.	Rs.	Rs.
1899-00 ..	18,66,288	47,72,605	6,897	4,12,21,405
1900-01 ..	18,64,981	49,89,810	7,629	4,22,31,351
1901-02 ..	20,74,488	50,15,173	6,424	4,29,15,972
1902-03 ..	21,00,089	50,25,161	28,052	4,36,39,985
1903-04 ..	22,13,137	57,57,322	95,011	4,57,27,135
1904-05 ..	21,70,247	59,47,213	1,94,489	4,80,42,287
1905-06 ..	23,63,350	60,35,955	2,59,703	5,00,21,481
1906-07 ..	23,42,706	62,14,773	1,67,617	5,10,72,739
1907-08 ..	24,77,223	62,19,710	1,08,091	5,25,03,025
1908-09 ..	25,89,994	62,33,800	1,22,414	5,48,02,018
1909-10 ..	25,72,655	63,82,088	96,483	5,47,42,665
1910-11 ..	24,92,460	63,11,995	97,468	5,49,02,796
1911-12 ..	26,82,348	64,72,219	89,649	5,67,66,744
1912-13 ..	27,54,463	72,76,936	28,978	5,79,94,554
1913-14 ..	28,79,491	73,07,502	19,755	5,97,70,408
1914-15 ..	24,51,368	68,59,037	29,244	5,86,85,651

Total Land Revenue Expenditure in India and England in £		£
	1899-00	2,748,739
	1900-01	2,815,599
	1901-02	2,861,735
	1902-03	2,909,480
	1903-04	3,48,884
	1904-05	3,203,094
	1905-06	3,335,910
	1906-07	3,405,625
	1907-08	3,501,340
	1908-09	3,653,932
	1909-10	3,650,079
	1910-11	3,662,476
	1911-12	3,786,454
	1912-13	3,868,029
	1913-14	3,986,422
	1914-15	3,914,018

The existence of the Permanent Settlement in some parts gives rise to inequalities which are all the more objectionable as the burden of the Land Revenue seems to have nothing to do with the fairness in distribution. The mere fact that a share of the produce of land has been a customary, ancient source of public income in India will not, by itself, justify this inequality. Any radical reform in the tax-system of India must commence with the rearrangement of the Land Revenue policy, and must be based upon the Principle that: as in the case of the Income Tax, an abatement must be granted to all those owner-cultivators whose total net produce from the soil, after paying all the expenses of cultivation, does not exceed, say, Rs. 1000 per annum. A system of taxation in which the state takes nearly $\frac{1}{2}$ of the net income of some agriculturists, though their average individual income may be miserably small, and hesitates to adopt a $12\frac{1}{2}\%$ tax on other incomes while leaves the greater number of agricultural incomes with an average much larger than in the former case, cannot possibly be defended. If the Indian Government regrade their Land Revenue legislation on this proper principle, they may have to abandon a considerable proportion of their present revenue under this head; but the loss need not be absolute. What they lose in the remissions granted to the small cultivator of Bombay and Madras and Burma and Central Provinces, they might make up by increased taxation of incomes in the United Provinces, Bengal, Bihar and Orissa, and the Punjab. The problem of redistribution among the Provinces will no doubt cause internal jealousies; but it is to be hoped that in the interests of equality in taxation and justice, the new consciousness of India solidarity will minimise the force of these jealousies and allow the redistribution to be effected by treducing the Provincial contributions from the provinces affected in proportion.

The problems connected with the Land revenue do not stop here. The modern civilised state cannot consider its duty accomplished merely by bringing about a greater degree of distributive justice in its tax-burdens. It must make it its first concern that the wealth of the people increases. The agricultural wealth of India cannot increase so long as the Indian cultivator is tilling small, unprofitable holdings, with the perpetual risk of their being still further reduced. Legislation must simultaneously be undertaken to reduce the *morcellement* of the agricultural land in India, by some system of presemption or some other guarantees against sub-division of an unconomic kind. Perhaps the best method to accomplish a standard economic holding would be to consider the entire land of a village as belonging to the village, and permit its cultivation and enjoyment to the village collectively. At the same time steps must be taken to reduce agricultural indebtedness, which, as already pointed out has not been appreciably affected by the Co-operative Banks after fifteen years of steady encouragement. The agriculturists' debts of a more than thirty years' standing must be taken as cancelled, and no court must entertain any suit on such claims even if the debtor should himself admit these debts. In the case of more recent debts, unless registered and admitting a specified rate of interest at the maximum, no court

should be allowed to enforce such claims against agriculturists. To accomplish a total, wholesale redistribution of land, and to destroy agrarian indebtedness the Governments concerned may have to borrow large sums, and enter into complicated fiancial operations; but the consciousness of social injustice in the existing dispensation will help to simplify a problem which would otherwise run the risk of being shelved *sine die* on the pretext of insufficiency of funds.

CHAPTER III.

REVENUE FROM DIRECT TAXES.

XLV. · Direct V. Indirect Taxes.

The distinction between the Direct and Indirect Taxes is adopted more for the purpose of convenience in discussion than because we recognise a fundamental difference between the two kinds of the taxes.* The original distinction between these two kinds introduced by the Physiocrats was as logical as it was radical. They considered Direct Taxes to be those which fell immediately upon the Tax-Source, and they considered only such taxes to be desirable.† But in practice the tax-reformers of the last century found it impossible to preserve the radical simplicity of the Physiocratic "*Impot Unique*" on the "*Produit Net,*" as much on account of the difficulty of ascertaining the total national produce and of devising a single tax from such produce, as of making the tax suffice for the constantly increasing wants of the national exchequer.‡ In the prac*tical mind of Adam Smith the theory itself underwent a change and the total* national income was broken up into Rent, Profits and Wages, so that the national taxation had to be adjusted accordingly. At the present time, therefore, the distinction is impossible to maintain on any essential basis of division.

To adopt the language of Cohn :

Even on this basis of a difference merely in the technique of taxation, it is difficult to find an agreement in the authorities on the subject. Once free from the logical and fundamental distinction of the French School it became increasingly difficult to accept a fundamental division. K. H. Rau considered the distinction to hinge on whether or not the persons paying the task in the first instance were intended and did in fact bear the burden of the tax ; but as this was a distinction of extrenals only he discarded it in favour of another : · Taxes on Expenditure and those cn Assessments. Hoffmann abandoned the distinction because he considered the distinction between the Taxes on possessions and those on Transactions more fundamental and more in accordance with the true conception of

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* The classification of taxes as direct or indirect is no longer a question as to the remoteness of the tax object from the tax source, but simply a question regarding different kinds of tax objects : it is a question of the technique of taxation." (Chon. Public Finance, P. 526).

† Speaking on the Budget, April 15, 1861, Gladstone compared Direct and Indirect taxes to two charming sisters, the one blonde, the other brunette, the one more frank and outspoken the other inclined to be shy and retiring, as member of the House, and more particularly as Chancellor of the Exchequer, he had always considered in his duty to pay his respects to both. (Cp. The Budget Speeches of W. E. Gladstone).

‡ "La forme essentielle del' impot consiste a prendre directement ou il est, et a ne pas vouloir le prendre ou iln' est pas......Changer cette forme directe de l'establissement de l' mpot pour lui donner une forme indirecte, c'est revenerser un ordre naturel dont on ne se peut s'ecarteri sans les plus grands inconvenients." (Mercier de la Reviere, quoted by Chon. in his Science of Finance p. 524).

§ The American Henry George was a more later Advocate of the single tax almost on the Physiocratic ideal. Reallasation of the socialist ideals would coincide with the advent of the Single Tax.

the Direct and Indirect Taxes. This later division has the merit of pointing to the difference that must be observed in the collection and administrative treatments of these two kinds of taxes. But beyond this, the logical position remains practically unaltered. It is impossible to consider all taxes on transactions or expenditure as Indirect, and all taxes on possessions or assessments as Direct. Even the most common illustration of the Indirect Taxes,—the Customs duties levied on goods imported from abroad, may be shown to be in reality a Direct Tax, if the importer is himself the consumer, as in the case of goods imported through post office.*

Being unable to consider the distinction between the Direct and Indirect Taxes as anything more than a principle of administrative convenience, we need hardly dwell at length upon the relative advantages of the two kinds of taxes. It is commonly believed that the progress of the political society from the personal, absolute regime to the constitutional democratic Government is synchronous with, and often facilitated by, the change from the Indirect to Direct Taxation. Because the Direct Taxes make the taxpayer painfully, relunctuntly aware of the burden he is bearing, they lead him to take a more active interest in the affairs of the Government. Because the burden of the Indirect taxes is disguised and unperceived they are necessarily the favourites with governments constituted on *absolutist principles,* and justified, if at all, on the ground of their paternal solicitude and "Intentional" excellence.† This advantage is bound to be overriding all the disadvantage of direct taxes wherever the ideal of political progress on democratic lines is accepted. It is sometimes argued that Indirect Taxes are more flexible, more voluntary, more convenient in administration, more truly in accordance with the ability of the tax payer. But (1) if by flexibility is meant the possibility of raising more revenue by a slight increase in the rate of the tax, it is difficult to see how the most commonly accepted instances of Indirect Taxes can be more productive. At a time when the Treasury is depleted by some War or another extraordinary demand, it is more than likely that the trade of the country would have been disorganised if not paralysed; the ability of the people to maintain a high standard of consumption would have been much reduced. At that time every addition to the rate of the tax cannot but prove a disappointment if it is intended to raise additional revenue. Even in normal times the most common phenomenon is that the yield of these taxes does not increase in proportions to the addition to the rate as the increase in price will unavoidably result in a diminution of the consumption and consequently of the tax return. It is thus impossible to consider these taxes flexible in the sense that their yield is elastic. (2) They are Voluntary in the sense that; these being mostly taxes on

* A direct tax is one which is demanded from the very person who, it is intended or desired should pay it; indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another. (J. S. Mill Principles of Pol. Econ. Bk. V. 3

† Les Impots directs portent immidiatement sur les personnes sur la possession ou la jouissance de a richesse ;-les 'mpots indirects sont percus a l'occasion d'un fait, d'un acte, d'un exchange" (Leroy Beaulieu Traite de Finances).

consummable commodities, the people's use of the taxed commodities is taken to be an indication of their willingness to pay the taxes. But more often than not the modern financier, seeking additional revenues, takes only those articles of consumption, which, being of universal necessity, are likely to be consumed in large quantities and consequently sure to yield a large return. But as the commodities selected for taxation are prime necessaries it is at most a theoretic ability of the people to forego their use and thus to save themselves the tax burdens. Unless the people have an effective alternative, it is no use to say that they can avoid the burdens by not using the taxed articles. And even supposing that there is an effective alternative, the tax would occasion sacrifice of enjoyment on the part of the people inasmuch as it results in an alteration of the direction of consumption. We are not here concerned with those indirect taxes on commodities the consumption of which is sought to be prevented or discouraged for reasons of national productivity, or because the taxed articles are believed to be deleterious in their effects. In such a case the object of the financier is not revenue but social reform or industrial regeneration which we may for the moment set aside. But the fact may be noted that in so much as the tax is productive, and the national exchequer becomes dependent on it, the original object of restricting or redirecting consumption is apt to be obscured. We conclude, then, that the apparent voluntariness of these consumption or commodity taxes is misleading: and the burden of taxation would be inequitable as between the rich and the poor, which would not be counter balanced by the fact that every consumer is free to escape the tax burdens by not using the taxed article. The only case in which the reasoning would at all be borne out in fact is when articles of luxuries alone are taxed, or, when some other indications of the ability and willingness to bear the tax burdens is furnished as by the employment of taxed carriages, or servants in livery, or similar other direct evidence of capacity to pay. (3) As regards, convenience in administration it may be conceded that customs and excise administration in modern states, and the taxes on commodities levied by local authorities, are more convenient in administering than perhaps Income Taxes and Death Duties. But this convenience is conditional upon an efficient service having been developed and the taxes offering no temptation to evasion. The third canon of Adam Smith, we may also grant, is more nearly fulfilled by these taxes; only in that case the convenience is not of the administrator but of the tax-payer. *

The great difficulty in the case of direct taxes is to find a suitable source of taxation which would not admit of a transfer of burdens. By common consent Income and Property taxes are regarded as Direct Taxes, though it is by no means quite certain that the burden may not be shifted by the tax-payer by asking for a higher salary or pension, or seeking more paying investments. Such as they are, however, they are the least likely to shift the burdens. But the main objection against an Income Tax is that Income is not a reliable indication of ability for taxa-

* "Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it." (Wealth of Nations, Bk. V. Ch. II.)

tion. The same income may mean quite different utility to two different persons, one of whom gets it from his property the other earns it by twelve hours' daily toil; one has no one but himself to support on that income, the other has a growing family to feed, clothe and bring up.* Income as a measure of the tax ability would be certainly disappointing and singularly unjust if we accept only the proportional tax on the obvious dimensions of the income. We are thus led to develop a system of progressive taxation, in which the rate of the tax rises in proportion to the rise in the size of the income, in the belief that the increasing income indicates an enhanced ability to pay. And the latter difficulty is met by a system of exemption and rebates or refunds according to the size of the income, its source, and the demands upon it. The property taxes do not always admit of the same graduation, exemption or rebates possibly because the chances of injustice would be comparatively less.

The great advantage then, of these direct taxes is that they are more truly in accordance with the ability of the tax payer as indicated by the least objectionable measure of ability. There are defects, no doubt but more accumulated experience enables us to devise means by which to minimise these disadvantages and the consequent chances of an unequal, iniquitable distribution of the tax burdens. From the standpoint of Finance they are the more satisfactory in that in an hour of emergency, by a mere increase in the rate of the tax, the yield would be almost correspondingly increased.† There are again, chances of evasion and false declaration of the Income; but we may escape these defects by the device of taxing at the source, and punishing the false declarant or his property should it afterwards turn out to be in excess of declaration ‡

Direct taxation as such was not unknown in the Financial administrations of India even in the pre-British regime.§ The land Tax or Land Revenue is the most obvious instance of a direct tax, which has been familiar to the people of India ever since the beginning of history, while practically the whole of the local finance in early India was of the nature of direct payments. When direct taxation in the shape of an Income Tax was first contemplated under the British Rule, there were many who felt that the novelty of the Tax, and the inquisitorial methods which its administration would require would go a long way in making the tax a failure. But as Wilson, the first regular Finance Minister of India, observed.

* The British Income Tax system makes a distinction between incomes which are earned and those which are unearned, by levying a higher rate on the latter. It also grants some concessions of to married people and to large families. See the Report of the Royal Commission on Income Tax, 1920.

† In England they have, ever since its introduction, relied on the income tax to make up any sudden unexpected strain on the National Finance. In this war as in the Boer War, the Income Tax accounted for the largest proportion of the increase in revenues, From 44.80 million the income Tax receipts of 1913-14 they rose to £290.43 or by 650 per cent in 1918-19.

‡ Under the Prussian System of Income Tax collection the estate, if found on the death of the tax payer to be more valuable than what the declaration of income during life time would warrant, all the arrears are charged on the estate.

§ "Direct taxes on the trading classes have been imposed in India from time immemorial, and there is at this stage no important Native State in which it is not a recognised part of the fiscal system. There is probably no country in the world in which so large a proportion of a great revenue is raised by direct small payments as in India. As a matter of fact, the greater part of the Land Revenue of more than £20,000,000 is raised by what are virtually direct payments from an immense number of persons. So again, nearly the whole of the local taxation is a great part, perhaps in the greater part of India, is received in the form of direct and not indirect payments." (Strachey, Finances and Public Works of India 1869-81. p. 207).

Sir I have consulted the ancient sacred authority of Manu and the version of the ancient Hindoo law, upon the best authority at my command, is as follows:—

THE REVENUE LAW LAID DOWN BY MENU.

'The revenue consists of a share of grain and of all other agricultural produce; a very small annual imposition on the petty traders and shopkeepers and a forced service of a day in each month by handycraftsmen. The merchants are to be taxed on a consideration of the prime cost of their commodities, the expenses of travelling and their net profits. The following are the rates of taxation; on cattle, gems, gold and silver added each year to the capital stock one fiftieth which in time of war or invasion may be increased to one twentieth, On grain one twelfth, one eighth, one sixth according to the soil and labour necessary to cultivate it.........on the clear annual increase of trees, fresh meat, honey, perfumes and several other natural production and manufactures, one sixth. The king is also entitled to 20% on the profits of all sales.........Besides possessing mines of his own, he is also entitled to half of the precious minerals in the earth, Now Sir, I must say that there is latitude enough for the most needy. Exchequer and the most voracious Minister :— a twenty per cent ; Income tax upon profits; a tax varying from Two to five per cent. upon accumulated capital a share of almost every artical produced an annual tax on trades, half the produce of mines"*

XLVI. HISTORICAL REVIEW OF THE DIRECT TAXES IN INDIA.

Leaving aside the minor examples of Direct Taxation more in the nature of an unwelcome inheritance from the past than as representative of the considered financial policy of the Government of India, the first general Income Tax was levied by Wilson in 1860 for a period of five years in order to meet the difficulties caused above by the Mutiny.† It was levied, on the English model, on all incomes above Rs. 200 per annum and arising from property, professions, trades and offices at the rate of 2 % on income between Rs. 200 and 500 p.a. and 3 % on larger income which also bore the additional one per cent. to be used for purpose of local development. The taxable minimum was raised to Rs. 500 the year after the next when the rate was made uniform at 3 %. The average yield was about Rs. 1.54 crores. When the first Act came to an end, its disadvantages and inconvenience were magnified, and the attempt at Direct Taxation in this modern form was for a time abandoned. But the Finance Minister has come to depend too clearly on such aid as this tax afforded to allow the Government for ever to abandon this source of revenue. Owing to the uncertainty of the opium revenue, the demands of Famine Relief, and the programme of Public Works, the Finances were threatened with chronic deficit and hence the License Tax on Trades and Professions was introduced in 1867 to take the place of the expired Income Tax. Being a tax on non-agricultural incomes it applied only to those persons who earned in the exercise of their trade or profession more than 200 per annum, the taxed classes being divided into groups, somewhat on the Prussian model, and paying fixed rates amounting to 2 % on the minimum income of each class. The yield of this tax was Rs. 65 lakhs, but the income was further increased by the introduction in 1868-69 of the Certificate tax, at the same time relief being given under the old tax by raising the taxable minimum to Rs. 500 p.a. and reducing the rates to 3½% on the minimum income of each class. The yield was reduced to 51 lakhs. But

* Budget Speech of Wilson, 16 February 1860, p. 16.

† The introduction of the first tax was the occasion of a constitutional struggle of some importances between the Government of India and the Madras Government. Sir C. Trevelyan, the Governor of Madras vehemently opposed the Income Tax and was in consequence recalled.

the same year (1869) the "Certificate Tax" was converted into and replaced by a general Income Tax. The taxable minimum and the rate were at first left unchanged, but owing to the continued strain on the finances and on apprehended deficit, the assessment was raised by 50 % while the methods of assessment were more rigorous. The 521,000 taxed persons paid the total amount of Rs. 1.11 crores. The rate was further raised to about 3 per cent. on the minimum of each class below Rs. 2,000 a year and an exact 3⅛ per cent on income above that minimum. In spite of the enhanced rate the yield came to only 2.07 crores and the number of assessees fell to 386,000. In the next year (1871-2) the taxable minimum was raised to Rs. 750 and the rate was a uniform 2 pies in the rupee or a little over 1 %. The yield was then 82 lakhs, and when in the following year the minimum was raised to 1,000 the yield fell to 58 lakhs. The tax was abandoned at the end of 1872-3.

During this experimental stage every thing was against the tax becoming an integral feature of Indian Finance. The people were no doubt unfamiliar with the mechanism of an Income Tax, and there was room enough for petty oppression and extortion. Besides, the constant changes in the rates and the taxable minimum introduced a confusion which was in no way compensated for by the obvious desire to take no more from the people than was necessary for the occassion. The plea of the Bengal Land-lords, and of agriculturists in general, to be exempted from this burden on the ground of the Permanent Settlement being exclusive of all such taxes, was overruled, and that contributed in no small measure to the general dislike to this tax. The next attempt towards a direct tax was made in 1877 to meet a falling exchange and a heavy famine. Starting with the United Provinces and the Punjab, the License Tax on traders and artisans was made common practically to the whole country. All incomes derived from non-agricultural trades and dealings were taxed at fixed rates varying with the classes into which the assessees were divided. Though the classification differed in different provinces they were all subject to the general condition that in no case the tax was to exceed 2 % of the Income. The taxable minimum was at first above Rs. 400 but was in 1880 raised to Rs. 500. Incomes derived from Government service and profession were free from the tax. The minimum tax on any individual was thus Rs. 10 the maximum being Rs. 500, except in Bombay, where it was Rs. 200. This arrangement, however iniquitable according to modern notions, continued unaltered till 1886—and the yield varied from Rs. 90 lakhs in 1878-79 to Rs. 52 lakhs between 1883-86 on an average. Defective as it was, the License Tax of 1877-78 was left undisturbed by the Government, partly because by constitution the Indian Government is averse to changes, partly because the people were becoming gradually accustomed to this form of taxation which might have been unnecessarily disturbed by an ill-timed change, however sound it may seem in theory. In 1886-87 however, the need to finance the Burman War, and the additional military expenditure consequent upon the Penjdeh incident, as well as the demands of a rapidly falling exchange, suggested a radical revision. A general

Income Tax on non-agricultural income was thus introduced to take the place of the License Tax. The taxed incomes were divided into the four classes of (1) Salaries and Pensions, (2) Profits of Companies, (3) Interest on securities, (4) and other sources. Incomes over Rs. 2,000 a year were to pay a general rate of 5 pies in the rupee (about 2½ %); incomes from salaries and securities between Rs. 500 and 2,000 were to pay 4 pies in the rupee (about 2 %) while similar incomes derived from other sources were to pay fixed rates according to classes. Of these here were 6 classes, on the three lowest of which the tax was equal to 2 % on the minimum of each class, and for the others it was slightly in excess of 2 % of the maximum of the class. Incomes below Rs. 500 were to be free as also all incomes derived from land or agriculture. Exemption was similarly granted to charities and endowments and soldiers whose income was below Rs. 500 a month.

The law as thus passed was for the whole of India, and its main principles still remains in force. Subsequent changes were (1) In the direction of raising the minimum exempted, which was raised to Rs. 1,000 in 1903, thereby freeing 315,000 persons out of 500,000 tax-payers at a sacrifice of about 29 lakhs or 14 % of the previous revenue; and again in 1919-20 when the tax-free minimum was raised to 2,000 at a sacrifice of about 75 lakhs; freeling 237,000 persons out of a total of 381,000 (2) In the direction of sharpening the rate of graduation or progression of the tax. In the original Act there was really no attempt to make the tax progressive, unless we consider the difference between 4 pies and 5 pies as indicative of the omission. Even in the reforming Act of 1903 no attempt was made to improve the progression. It was owing to the grave necessity occasioned by the ast War that the Income Tax in India for the first time accepted the principle of progresssion in assessment. The Budget of 1916-17 left untouched the exemptions granted by previous legislation, as also the rate of taxation on incomes upto Rs. 5,000 a year. But for incomes exceeding 5,000 the tax was raised to 6 pies in the rupee upto 9,999; on incomes between Rs. 10,000 and over at the rate of one anna in the rupee or 6 %. The profits of companies were made assessable at the uniform rate of 6 % subject to exemption in the case of individual share-holders whose income from all sources was such as to demand a lower rate. In the next following Budget the principle of progression was carried a step further by the introduction of the Super Tax, which begins in respect of incomes exceeding Rs. 50,000 and is charged at the rate of one anna in the rupee on every rupee after first 50,000; at 1½ anna in the rupee on incomes between one lakh and one and a half lakh; for every rupee of the next Rs. 50,000 of the excess i.e. between 1½ lakh and two at two annas in the rupee or 12½ % and on incomes over 2½ lakhs at the rate of 3 annas in the rupee. These are in addition to the standard Income Tax at the rate of one anna in the rupee or 6¾ %. The maximum charge, therefore, under the Indian rates is 25 %, being much under the charge levied in England or the United States. The total yield of the Income and Super Taxes in 1918-19 was nearly 10 crores.*

* The Super Tax, modified in 1920-21, was reintroduced in the next budget (1921-22) at a sharply progressive rate, being 25 % maximurce—on incomes exceeding 3½ lakhs a year.

XLVII. DETAILS OF REVENUE FROM DIRECT TAXES IN INDIA.

The subjoined table shows the growth of the Income Tax and other cognate taxes since the beginning of the period under review.

	£		£		£
1861-62	2,054,696	1882-83	517,811	1903-04	1,214,663
1862-63	1,882,212	1883-84	526,027	1904-05	1,259,802
1863-64	1,483,622	1884-85	511,828	1905-06	1,321,393
1864-65	1,281,817	1885-86	503,034	1906-07	1,423,787
1865-66	692,241	1886-87	1,354,735	1907-08	1,504,173
1866-67	22,127	1887-88	1,421,436	1908-09	1,553,419
1867-68	653,843	1888-89	1,520,940	1909-10	1,558,964
1868-69	508,700	1889-90	1,595,274	1910-11	1,593,301
1869-70	1,110,224	1890-91	1,617,393	1911-12	1,652,878
1870-71	825,241	1891-92	1,652,823	1912-13	1,742,397
1871-72	2,072,025	1892-93	1,686,141	1913-14	1,950,250
1872-73	680,139	1893-94	1,739,171	1914-15	2,036,733
1873-74	20,136	1894-95	1,808,060	1915-16	2,090,109
1874-75	2,747	1895-96	1,835,189	1916-17	3,772,967
1875-76	5,100	1896-97	1,872,809	1917-18	6,308,104
1876-77	310	1897-98	1,895,465	1918-19	7,300,900R.E.
1877-78	86,110	1898-99	1,922,191	1919-20	13,521,500B.E.
1878-89	900,920	1899-00	1,300,295		*
1879-80	785,318	1900-01	1,322,094	These figures include the	
1880-81	558,720	1901-02	1,369,310	estimated yield of the	
1881-82	536,829	1902-03	1,410,428	excess profits Tax.	

Apart from the general Income Tax there are now no other Direct Taxes under the name of assessed taxes, with the possible exception of the Capitation Tax or "Thathameda" of Burma. The proceeds of this Tax are, however, credited under the head of Land Revenue, though the tax really represents the Income Tax for the up country regions of Burma. Since 1905, the whole of Lower Burma has been made subject to the ordinary Income Tax, while in Upper Burma, with the exception of Mandalay the Tax applies only to Government servants and to some employes of the Joint Stock Companies. In the Central Provinces there was another direct Tax, the "Pandhri Tax," which was abolished in 1902. The only other representative of direct taxation in the Indian Fiscal system are the Provincial Rates which will be discussed anon.

At the end of the nineteenth century, 84 % of the assessed were in the lowest class and paid between them 35 % of the total yield. The total national income subjected to the tax was declared about the same time at 78 crores. Of the four classes of incomes, salaries and pensions accounted for 30 % of the yield, profits of companies 7 %, Interest on securities 5 % and the other sources 58 %. As between the provinces Bombay had 1 out of every 209 persons paying the tax, Madras 417, Punjab 444, Bengal 580, United Provinces 637, Assam 681, and

* The figures show gross yield in every case upto 1899-1900 the figures give £—10 Rupees since 1899 the £—15 rupees.

Central Provinces 1,077. Ten years later the smallest taxed incomes accounted for 65 % contributing only 1/5 of the total revenue. The total number of assessees was 270,000. Of the total tax, salaries contributed in 1911-12, 28 %; company profits 11 %. Interest on securities 5 % and the other sources 46 %. At the present time the total number of assessees, according to the latest reduction, is about 144,000 paying, however, a much greater tax, increased by nearly four or five times the pre-war level.

XLVIII. CRITICISM ON THE INDIAN INCOME TAX SYSTEM.

Considering the Indian Fiscal system as a whole we cannot but admit that as compared to Western nations Direct Taxes play a very insignificant part in the tax system of India, if we leave out of account the Land Revenue as a debateable subject. If we include the Land Revenue and Provincial Rates, the total yield of Direct Taxes was about 42 crores in 1917-18 out of the total revenue of 170 crores or 25 %; the pre-war average being nearly the same (35 crores out of a total of 128 crores). This contrasts poorly with the Direct Taxes paying 40 % of the total revenue in the pre-war era, or 80 % of the total in the last war year, in the United Kingdom, or 60 % of the United States revenues in 1917-18. If we omit from these figures the great item of Land Revenue, the pre-war percentage would not much exceed 2½ %. This shows a very disproportionate burden of taxation between the different classes of tax-payers. It is true, indeed, that the wealth of India being relatively very small, the yield from Direct Taxes would never be very great in this country. It may also be that a great proportion of the Direct Taxes escape enumeration in the Imperial Budget as the more important of them are more fully in the Local Jurisdiction. But making full allowances for these factors the fact still remains that the proportion between the two classes of tax burdens is borne unequally by the different kinds of tax-payers. It has been argued that Direct Taxes, of the kind of the English Death Duties, are impossible in India owing to the law of Joint Family which allows of no division of ancestral property being made. But that custom, even admitting that it is impossible of modification by modern legislation, applies in all its rigour only to landed or immoveable family wealth. We shall show elsewhere some means of meeting that difficulty. Here, we may point out that at least as far as the moveable property of Non-Agriculture classes is concerned, the State in India may well tax it for the common need; and though the amount expected from such a source be small, the tax if introduced would help to right the present unfair balance in favour of the payers of Direct Taxes.*

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* The amount that might be expected from such a tax is dificult to estimate. We have no records of transfers of estates and their values at death of original owner. The table in the margin shows the probable amount of total properly which may be brought under such a tax. And if we assume that about 10 % of the total changes hands every year by death and that it is taxed at 5 % on an average the total tax expected from this source would be under 5 crores of rupees. The table we may note, has been compiled from the evidence of Mr. Findlay Shirras before the Indian Industrial Commission Vol. II p. 854. The estimate does not err on the ground of being over sanguine The figures are upto the end of the year 1916-17, except in the case of the paid up capital of the Companies which have been brought more upto date. With 100 crores changing hands in the ordinary course of nature the 5 % average tax would realise Rs. five crores or make up for the loss of the excess profits Tax in the latest Budget.

Total paid up Capital of Joint Stock Co.	Rs. 200 Cr.
Bank deposits	„ 125 „
Govt, Debt. and liabilities ..	„ 590 „
Municipal & Port Trust ..	„ 35 „
Savings Banks	„ 25 „
Co. Op. Soc.	„ 10 „

Another great defect of our system of Direct Taxation is the exemption of Agricultural Incomes from taxation. The small cultivator of the Ryotwari regions has indeed an income too small to be able to pay a tax thereon; he would be exempted in any system of equitable adjustments of the tax burdens. Besides he takes more than a fair share of the burdens of the Government by the payment of the Land Revenue, in itself a Direct Tax almost like an Income Tax. While in the case of the other Incomes, all incomes below Rs. 1999 a year are now exempted, or Rs. 1,000 a year until quite recently were exempted, the bulk of the Land Revenue is paid by men living much under that minimum of taxation. If an attempt were made to make tax burdens more evenly distributed it is more than likely that a great portion of that revenue will have to be permanently abandoned,* But while there is possibility of considerable decline in revenue if the exmption limit is raised, the Incomes of the great Bengal Land-Lords or the Oudh Talukdars, will more than make up the deficit, if taxed at a rate in proportion to the size of their incomes. The Permanent Settlement, it has been argued, has resulted in an exemption from taxation, which is all the more scandalous as the individuals exempted are the most able to bear the burdens. But so great is the strength of this powerful vested interest that when, owing to War needs, the rate of the Income Tax was sharply raised in 1917-18, and an attempt made to tax at least the Income derived from the savings of the Agricultural Incomes, the representatives of the Land-Lord classes in the Imperial Legislative Council voted solid even against this slight infringement of their extraordinary privileges. It is an irony of fate that the veteran Bengali Leader—the great Surendro Babu—was made the mouth-piece to maintain these indefensible privileges. It is to be seen what he will do as a minister. In Bengal alone the Land Revenue now collected is estimated to represent only about 25 % of the rental of the Bengal Land-Lords. If the basis adopted in the Shaharanpur rules were extended to Bengal the revenue from land in that province would account for 6 crores and together with Bihar and Orissa, it might be much in excess of 9 crores. The taxation of Income would then be placed on

* The table in the margin shows the proportion of the Land Revenue contributed by the different provinces. As of the total Land area in India 47 % is held by small peasant proprietors and 53 by Zemindar of latter rather more than a third or 40 % is permanently settled while the remaining 60 % is temporary. Assuming for the sake of simplicity that the revenue is contributed in equal proportions by the permanent and the temporary tax-payers according to the table on p. 171 of the Decennial Statement of the Progress and condition of India issued on 22 July 1913, the revenues would have to be exempted from taxation as noted below in the different provinces. The entire revenue in the Ryotwari districts need not be exempted. But assuming that it is wholly remitted the land Revenue would be reduced by Rs. 16 crores or nearly 50 % If the charge in the Zamindary area is doubled the loss would be made up.

Land Revenue by Provinces.	Rs.
Bengal	2,79,27,219
Madras	7,00,16,684
Bombay	5,41,07,087
United Provinces	6,66,08,251
Punjab	4,04,51,302
Burma	4,75,95,075
Bihar and Orissa	1,54,66,425
Assam	75,79,713
Central Provinces	1,98,54,287
Other Provinces	84,19,563

Province.	Zemindary. Area.	Ryotwari Area.	Total Revenue.	Revenue exempted.
Madras	29.17	61.57	7.00	4.65
Bombay	3.75	44.87	5.41	4.95
Bengal	49.56	Nil.	2.79	Nil.
United Provinces ..	68.33	,,	6.66	,,
Punjab	62.21	,,	4.04	,,
Burma	Nil.	108.79	4.75	4.75
Bihar and Orisa ..	55.21	Nil.	1.54	Nil.
Central Provinces ..	40.63	1.83	1.98	.10
Assam	53.89	25.91	.75	.16
				14·61

another footing altogether. At the present time, however, assuming the Land Revenue from the Ryotwary as well as the Zemindary areas to continue on the existing basis in spite of its manifest injustice, the only means to equalise the burdens of taxation is to levy an income tax from the large landed proprietors at the same rate as is levied on other incomes on the *whole* of their income, no matter from what source they are derived. Probably such a measure would add another 5 crores at the very lowest computation. If the whole of the excess or unearned increment is to be taxed the addition would be much greater.*

Besides these two main defects in the Income Tax system of India, there are others of minor importance, which, however, if properly looked to, might add no small sum to the exchequer. For instance at the present time the tax is supposed to be levied on the total income no matter how derived. Apart, however, from the profits of the Companies, the dividends of which deduct the tax before payment to the proprietors, there is no means to apply the device of taxing at the source. Thus in the case of Public Servants only the official salary and acting allowances are subject to tax deduction before the salary is paid. But the other gains of public servants, e.g. Travelling Allowances, Expert or Examination Fees, and similar additions to the income are not taxed in the same way as the main salary and allowances. As these incidentals make up no small proportion of the income of public servants, it is not improbable that a more rigorous administration of the tax may add considerably to the total of the tax.† Again, the original Act, in order to make the tax as little objectionable as possible, allowed merchants and others who desired the convenience, to declare their incomes once in 3 years and to pay a lump sum by way of the tax on such an income without right of revision or fresh declaration. It is notorious that this privilege is capable of gross abuse, and is in fact abused. Finally, in the case of merchants and professional men the assessment of the tax is necessarily dependent on the declaration made by the individual tax-payer, a declaration which there is reason to believe, is by no means excessive. There is, moreover, no distinction in the Indian Income Tax system between incomes which are earned by the personal exertion of the earner, and those which are the results of factors in manipulating which the earner has no hand. Necessarily the former is uncertain, precarious unsafe and ought, therefore, to be differentially treated in the rate charged, or exemption granted. Similarly too, allowance ought to be made according as to whether the income is for the exclusive gratification of the owner or has other charges upon it such as the support of a growing family. A rebate or exemption

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* According to the Decennial Statement of the progress and condition of India, the total area of 608 million acres was divided into 285.63 million Ryotwary, and 322.5 million Zamindary acres, of which 121.86 were permanently settled and 200.63 temporarily settled. If we divide the total revenue from land in equal proportions the permanently settled Zamindaries would pay 20 % or 7 crores, the temporarily settled Zamindaries would pay 33 % or 12 crores, and the rest 17 crores, would be paid by the Ryotwary areas If we extend the fifty percent net assets rule to the permanent Zamindaries, and if we accept that the present tax represents only half that ratio the yield from these lands alone would be greater than 7 crores. And similarly the 12 crores paid by the other Zamindary lands were taxed at the average rate of 10 % the yield would be 1.20 crores.

† If the total Income Tax revenue is made up of 30 % contributed by salaries pensions and gratuties, and if the incidental income may be estimated at half as much, the addition by a rigorous administration of the tax would not be less than one crore, in the case of public and other salaries alone.

must be granted on this account as well. Those changes, if made, might conceivably reduce the yield by 2 crores roughly. But if all the other changes are simultaneously introduced, the net total yield from the Income Tax must surmount to Rs. 30 crores in the very first year.*

We thus find that, if the tax burdens are more evenly divided by the introduction of other Direct Taxes on property, by the removal of unfair exemptions and by the more rigorous administration of the system, the present returns from the Income Tax, retaining the present rates of Taxation, would be at least doubled*

IXL. PROVINCIAL RATES.

The only other form of the Direct Tax is to be found in the Provincial Rates. These were first introduced to provide funds for the construction and repair of roads and schools, dispensaries and village sanitation in general, and other local expenditure. Acts authorising the Levy of land cesses on the land rental were passed in Bombay, Madras, Bengal and the United Provinces and the Punjab between 1865 and 1871. Side by side with these the Punjab and Oudh cesses for roads, schools and the district post, assessed at the time of the Land Revenue Settlement, were continued. The Central Provinces, Burma and Assam had similar additional cesses as well. Later, a Public Works cess at the maximum rate of one-half anna in the rupee, was added in Bengal; and some of the cesses were raised while a general cess in place of the numerous settlement cesses was substituted in Assam and Burma.

These cesses are generally assessed on the Annual "Assets" or rental value of land, calculated variously in the different provinces according to the nature of the prevailing system of land tenure in each province. Continued surplus of revenue over expenditure enabled the Government of India in 1905 to promise substantial assistance to the local funds equal to one-fourth of the total income from the land cesses of all Local Boards. In the same year the special Famine Cesses imposed in 1877-78 in the United Provinces, the Central Provinces and the Punjab, yielding about Rs. 18 Lakhs a year, were abolished. Next year for the same reason the Patwary and various other village service cesses were abolished at the sacrifice of 75 lakhs revenue. Petty appropriations, formerly made from the funds of Local Boards to meet the cost of normal schools, local Government

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* According to the estimate already given, the new direct tax on moveable property in the nature of Death Duties would amount at the lowest to Rs. 5 crores. The removal of exemptions from agriculture incomes ought to add another 9 crores while more rigorous administration ought to add anywhere between one and five crores according to the rigorousness introduced. That the present system allows considerable under declaration may be shown from the single fact that in Bombay Presidency there were, according to the returns of 1914-15 about 3,000 people paying income tax on an income exceeding Rs. 10,000 a year. In Bombay City people of that class numbered less than 1,000.

Though there were nearly 5,000 motor cars in the city allowing for multiplicity of cars in some hands, as also for Government and public cars, therea were still about 3,000 cars at least privately owned. Under the conditions of life in Bombay, no one with an income of less than 1,000 a month can afford to keep a car in Bombay. The same conclusion appears from the number of people paying rent over 60 a month, who at the most modest calculation of the residences in the new and fashional lequarters of Cuffl Parade and Colaba, Walkeshwar and Gamdevi, Sandhurst Road and Chowpati cannot be under 5,000 and none of them could be telling the truth if they declared their income under Rs. 5,000 a month. There are 400 Cotton brokers and an equal number of share-brokers not to mentionsub-brokers whose net incomes range from 10,000 to 10,00,000 individually.

offices and the like, were discontinued. The relief thus given was at the expense of the Imperial Revenue. The principle then adopted by the Government of India was that no local cesses should be imposed on the land, supplemental to the Land Revenue Proper, except such as are levied by or on behalf of the local governing authorities, and for expenditure by these on genuinely local objects. The Budget of 1913-14 abolished the appropriations from the land cess for Provincial purposes, The proceeds of the Public Works Cess of Bengal will now be made over to the District Boards, while the appropriations for rural police in the Province of Agra discontinued.

A general cess for local purposes is now levied throughout India on the annual value of land, at a rate approximating to 6 %. In some provinces this cess may be increased for the purpose of constructing District Railways or Tramways. The cess is annually collected along with the Land Revenue; but the proceeds are administered to a large extent, if not wholly, by District Boards and other local authorities. Since 1908 these revenues have been excluded from the general accounts of the Government of India. The subjoined table shows the revenue from these rates or cesses.

Year.	Revenue.	Year.	Revenue.	Year.	Revenue.
	£		£		£
1877-78	238,504	1890-01	3,491,240	1903-04	2,825,349
1878-79	2,638,835	1891-92	3,502,837	1904-05	2,824,481
1879-80	2,882,125	1892-93	3,705,498	1905-06	2,798,057
1880-81	2,766,317	1893-94	3,514,571	1906-07	2,280,579
1881-82	2,895,419	1894-95	3,541,154	1907-08	525,825
1882-83	2,683,015	1895-96	3,707,005	1908-09	533,593
1883-84	2,878,731	1896-97	3,536,855	1909-10	539,228
1884-85	2,791,461	1897-98	3,723,296	1910-11	554,370
1885-86	2,960,315	1898-99	3,922,143	1911-12	548,680
1886-87	2,999,986	1899-00	2,498,783	1912-13	552,149
1887-88	3,035,323	1900-01	2,562,713	1913-14	180,214
1888-89	3,054,254	1901-02	2,743,154	1914-15	38,815
1889-90	3,410,055	1902-03	2,747,390	1915-16	41,841

Hardly any comment is necessary on this steadily diminishing item of Public revenue beyond the remark that the Government of India have at last recognised the principle of the local revenue being reserved exclusively for local purposes. The authority of the local bodies in India in the matter of taxation leaves still much to be desired; but we may record with appreciation the adoption of the principle already referred to, as also the fact that this item is rapidly disappearing from the Imperial Statement.

CHAPTER IV.

L.—INDIRECT TAXATION IN INDIA.

As has already been observed the constitution of the Government of India naturally inclines them to favour indirect taxation, as being alike easy to collect imperceptible in its effects, and adequate in its yield. With the exception of the Customs Revenue, the bulk of the Indirect taxation has not been the subject of any careful enquiry into the objects and aims of such taxation, as well as the incidence, effects and administration of such taxes. The Salt Revenue and the Excise have at different times, and for different reasons, provoked criticism, it is true; but in neither case was an attempt made to consider and formulate a comprehensive scheme based on a scientific policy. If we leave out of account the Land Revenue, the Salt Revenue, Customs, Excise, Stamps and Registration contributed to the total revenues in the following proportions

Year.	Total Indirect revenue £	Direct Taxation. £	Total Revenue. £	Proportion of 1 & 2 to 3			Proportion of 2 to 1.
1861-62	10,928,594	2,054,696	43,893,472	25 %	and	4.8 %	18.3 %
1871-72	13,388,027	825,241	50,109,093	26.75	,,	1.75%	3.125%
1881-82	16,930,368	3,432,519	73,695,806	22. 9	,,	4.5 %	20.00%
1891-92	24,884,281	5,844,334	101,426,693	24.75	,,	5.75%	24.00%
1901-02	17,608,361	4,112,464	66,852,191	26.5	,,	6.0 %	23. 5%
1911-12	23,730,523	3,201,558	82,835,750	29. 0	,,	2.6 %	9. 3%
1912-13	24,360,673	2,294,546	86,862,398	28. 0	,,	2.65%	9.56%
1913-14	25,755,080	2,130,460	85,207,175	30.2	,,	2.5 %	8. 0%
1914-15	24,682,210	2,075,547	81,157,666	28.57	,,	3.5 %	8.4 %
1915-16	24,106,183	3,131,954	84,413,537	30. 0	,,	4.0 %	13. 0%
1916-17	29,018,618	3,104,358	98,050,430	30. 0	,,	4.0 %	13. 0%
1917-18	32,952,893	6,336,737	112,662,347	29.33	,,	5.6 %	19. 0%
1918-19	34,770,600	7,330,500	121,500,500	27. 9%	,,	6.0 %	21. 3%.RE.
1919-20	36,065,300	13,556,100	123,190,800	28. 0	,,	11.0 %	37. 5%B.E. *

LI. STAMPS REVENUE.

The Stamps Revenue of the Government of India is derived from two great classes of stamps, judicial and commercial. This branch of the revenue is regulated by the Court Fees Act of 1870 as regards the Judicial or Court Fee Stamps,

* These figures represent in each case gross revenue. The figures of net revenue would be about ten per cent less. Except in the last two years the figures are all actual account statements; in the last two years they represent Revised Estimates and Budget Estimates respectively. In the years before 1900 the figures represent tens of rupees, the pound sterling being taken as equal to ten rupees. After 1900 the rupees are converted into sterling at the rate of Rs. 15—£1. The Indirect Taxes include Salt, Stamps, Customs, Excise, and Registration; the Direct Taxes include Income or Assessed Taxes and Provincial Rates and in the War years Super Taxes and Excess Profit Tax.

and by the Indian Stamp Act of 1899 as regards the other stamps, with subsequent amendments. The former is imposed on petitions, plaints and other documents filed before Civil and Criminal Courts as also before the Revenue Courts; with specified exceptions in each case. The latter imposes duties on commercial transactions recorded in writing, like Conveyances, Bonds, Cheques, Bills of Exchange and Receipts. This last was altered in the Budget of 1910 imposing higher duties on Debentures, Share Warrants to Bearer, Transfers of Shares and Debentures, Bills of Exchange, Probates, etc. The increase was calculated to yield and additional net revenue of about £126,000 a year.* Of the two branches the Court Fee Stamps account for two-thirds of the total revenue, while the commercial stamps make up the other third.

We have already considered, while discussing the Expenditure on Courts of Justice, the question whether we should regard the Stamp Fees levied from litigants as a tax or a return for service rendered by the State. and have held that they are more in the nature of a tax than of a price for a service. It is difficult to class quite satisfactorily the other branch of the stamp revenue, that derived from commercial documents. It is a charge made by the state for the authentication of documents which may have to be relied upon to prove disputed matters, and as such one may regard it as a sort of a fee for a service rendered by the State in the interest of the community. The fact, however, that the state attempts to graduate its charge according to the value of the transaction in many cases would go rather to show that whatever its origin, it is now regarded more as a tax than as a fee, which ought to be uniform, and must be relatively a small charge on the transaction, irrespective of the value or utility of the transaction. Whatever we may adopt as the theory of this charge. it is at present time an integral item in the revenue system of most modern communities. being popular with financiers on account of the ease of collection and superintendance, which is so characteristic of the Stamp Duties. In India for a considerable period the Stamp and Registration dues were classed as indistinguishable, but since 1879-80 the items were separated, making Stamp revenue an independent item by itself.†

* In the Budget of 1910-11 the alteration was estimated to yield:—"In 1910-11 the revenue has been taken at Rs. 29.21 lakhs more than in the current year. Of these Rs. 10 lakhs represent the proceeds of enhanced taxation which it has been decided to impose in order to avoid a deficit. The taxation takes the form of raising the present duty." (Budget 1910-11. para 27).

† If we regard a fee as an accompanyment of an act of Government which would be no less necessary even if no particular payment were demanded for it, so that it can evidently not be regarded as performed in consideration of the payment, (Rau; Finanwissenschaft) the stamp duty can scarcely be considered to be in the nature of a fee. For the use of stamped paper, at least as far as commercial stamps are concerned, is between private individuals, merely collects a tax by means of its stamp, which neither renders an indispensable service, nor is quite candidly a tax by order of sovereign authority. "The stamp honestly confesses that it is nothing more than a useful form of taxing certain objects, or of collecting fees from objects which have no intrinsic connection with the fee. Being a piece of paper, it is well adapted for objects which are in the form of a piece of paper or are wrapped in paper—for documents as well as for playing cards, for instruments of exchange as well as for articles of consumption. (Cohn. Op. Cit. p. 424 art. 281.)

The Indian Stamp revenue has nothing to do with the Consumption tax introduced in the form of a Stamp duty, as in France or the United States.*

LII. REGISTRATION.

As observed before the Registration charges were up to 1879-80 collected along with the stamp duty, but have since that date been recorded separately in the public accounts. The registration of documents is governed now by the consolidating act of 1908, called the Indian Registration Act (XVI) of 1908. There are two classes of registrable documents:—those requiring compulsory registration and those in which registration is optional. Compulsory registration is applied to documents such as instruments of gifts of immoveable property of a value exceeding Rs. 100 or more, and some leases of more than one year. Registration is voluntary in the case of instruments relating to property (immoveable) of a value under Rs. 100, leases for not more than a year, instruments for rights in moveable property, wills and other documents. The item in public accounts called Registration also includes fees for searching records, for making copies etc. In other cases the law governing registration of transferred property is the Transfer of Property Act of 1882, as amended by the Act of 1904. Mortgages of any immoveable property are under that Act made compulsorily registrable, as also in the case of sub-leases. In fact the transfer of every kind relating to immoveable property is now compulsorily registrable.

The following gives an indication of the amount of revenue derived from registration as well as the value of registered property passing hands. The charges in connection with the registration revenue, as well as the revenue itself, are in the margin table. The net surplus of revenue over expenditure is thus very small being about £ 200,000 in round figures.

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* The following are some of the most important stamp fees in India :—

Occasion.	Amount of Duty. Rs.	Occasion.	Amount of Duty. Rs.
1. Entry in High Court of Vakils or advocates.	500	2. Entry in High Court of an Attorney	250
4. Articles of Association of a Co. ..	25	3. Articles of Clerkship	250
6. Memorandum without Articles. ..	40	5. Articles of Memorandum	15
8. Composition deed	10	7. Appointment under Power	15
10. License	10	9. Will and Adoption	10
12. Reconveyance	10	11. Partnership	10
14. Award	5	13. Release	5
		15. Bond (Rs. 2½ and over)	500

In addition to these the Bills of Exchange and Bonds are charged and advalorem stamp duty rising with the amount of the Bill or Bond, and the same scale applies to mortgage deeds, leases, conveyances in general. Other documents liable to stamp duty are Cheques (1 anna), receipts, share certificate, Insurance policies etc.

The subjoined Table shows the total revenue and expenditure in connection with the Stamps.

Year.	Revenue. £	Expenditure. £	Net Surplus £
1901	3,446,406	105,817	3,340,589
1902	3,473,711	109,308	3,364,403
1903	3,580,247	122,379	3,457,868
1904	3,738,362	121,091	3,617,252
1905	3,926,364	128,164	3,798,200
1906	4,029,908	186,267	3,843,648
1907	4,259,649	139,109	4,120,540
1908	4,344,056	174,038	4,160,018
1909	4,548,304	151,789	4,398,515
1910-11	4,811,691	123,820	4,687,871
1911-12	4,815,129	134,190	4,680,339
1912-13	5,069,113	153,808	4,915,217
1913-14	5,318,293	173,143	4,915,217
1914-15	5,082,043	119,863	4,962,180
1915-16	5,433,632	147,150	5,286,482
1916-17	6,776,696	178,466	5,608,230

Year.	Number of Registrations. Immoveable property.	Moveable Property.	Aggregate value of property. (In million sterling) Immoveable £	Moveable £	Total. £
1902 ..	2,714,463	275,833	45.69	3.78	49.47
1903 ..	2,701,548	273,169	47 25	3.82	51.07
1904 ..	2,775,397	284,569	52.48	4.18	56.66
1905 ..	2,897,358	286,752	54.25	4.19	58.44
1906 ..	3,208,447	304,401	59.95	4.44	64.39
1907 ..	3,367,486	308,366	64.18	4.62	68.80
1908 ..	3,567,867	314,152	68.89	4.80	73.67
1909 ..	3,659,011	301,105	70.04	4.80	74.84
1910 ..	3,468,926	292,967	71.00	5.00	76.00
1911 ..	3,515,914	293,295	71.55	5.40	76.95

Registration Receipts and Charges analysed.

Fees for documents	54.04
Fees for copies	2.97
Miscellaneous	5.77
Total Receipts ..	72.79

It will be noticed that the revenue from registration fees is not in connection with those events which occur frequently in any Society which need some sort of solemnisation by the intervention of the state authorities. If it be intended to derive a considerable revenue, more or less on the analogy of the Stamp Revenue, Registration fees ought to be charged on such events as deaths, birth, marriages etc. In the case of marriage, it may be admitted, it may not be possible for some time to come to levy a license duty or fee, as the principle of civil marriage is not quite understood, and will not be easily accepted, in this country. Unless the priesthood of all classes is subsidised, and religion made a department of state, a consummation very far from likely,—it would be more costly than remunerative to institute marriage fees for the State. But a registration fee for death and birth certificates ought to be easily accomplished. If the fee is small, as it must be in the circumstances of India,—say one anna, per each such event registered,—the revenue may benefit to the extent of Rs. 10 lakhs in round figures. A low charge like the one suggested would not cause any great hardship to the poorest section of the community, while a proper registration system might be immensely serviceable, not merely in improving our statistics of population but also in enabling better measures for sanitation to be concerted.*

But a more prolific source of revenue would be an increase in the Stamp duties, especially on Commercial documents, like transfers of stocks and shares, issue of debentures, new shares, new Companies and the like. We do not support such a measure in any hope of its being able to put a stop to, or even to discourage, unhealthy speculation, which is now so characteristic of the Indian Markets. Apart from the fact that intelligent anticipation of the factors of supply and demand of the staple commodities is an important, almost indispensable economic service rendered by the speculator, and as such his activities should not be indiscriminately hampered, there is the more practical objection that such an object would be impossible to be accomplished by the means merely of an increase in the Stamp Duty. In the first place, it is most frequently impossible to distinguish

* There are annually 7 million deaths throughout India, and about 7 million births in British India. At the rate of one anna for registration this figure ought to yield Rs. 10 lakhs in revenue without any additiona expenditure. We have no reliable statistics of marriages, and as already observed, a registration fee for marriage would not be feasible for some time to come in this country. But assuming 1 million marriages a year, a charge progressively according to the splendour and general expenses attending a marriage, from one rupee to 100 rupees, it might be possible to get two million of rupees from that source or more.

between legitimate commercial transactions and illegitimate speculation. And even if it were the speculator would always find means to avoid the tax. The only object, then that it may be fairly hoped would be servived by such a measure, is an addition to the public revenues.*

LIII.—SALT REVENUE.

The Salt Duty in India is an old item of public revenues alike instructive in historical aspect, and productive in its fiscal aspect. It has been regarded by the present Government of India as a heritage from the older Native rulers of the country; it is by no means quite clear how was this tax collected under the indigenous regime. Assuming its existence, we hear first in history of the fiscal impotance of this duty, when Lord Clive, in his endeavour to reform the public service of the Company, and to prevent the many abuses that had crept in by the sudden change of character from a poor trading corporation to a mighty arbiter of the destinies of kingdoms and provinces, set apart the proceeds of the monopoly of salt for the benefit of the public servants of the Company, who received miserable stipends, but whom Clive forbade to accept what were politely described as "presents" from the Natives, and who were, therefore, thus to be compensated for the sacrifices of no mean portion of their incidental income. After the reorganisation of the public service by Lord Cornwallis in 1793, the salt monopoly was utilised as an ordinary source of public income for the state. In Bengal salt was prepared by the Company's Agents. Before the article could be brought to the market for sale, a duty of Rs 5 a maund of 82½ lbs. was added to the cost of the production, which sum was reduced to 4 a maund on salt from Native States before it could pass into British territory. Where, as in Madras and Bombay, good salt could be prepared from the evaporated sea-water, the Company's government collected the duty from private manufacturers, the duty being 2 in Madras and 1 in Bombay. Finally, as regards salt imported into India by way of the sea, an import duty of between 5 to 6 rupees per maund was charged. †

* As usual the absence of reliable statistics is the one great difficulty in making an estimate of the yield from such an increase of the Stamp Duty. In the Bombay Share Market 50,000 transfers a month have for the last three years been quite usual; and as the bulk of these transfers were in shares well able to bear a increased duty, the present Stamp Duty may be doubled without much danger of business or revenue suffering thereby. Again if speculation is to be discouraged without handicapping legitimate business, it would the be a bad idea to charge increasing registration duties, on every addition of capital to the existing companies, one very floatation which is new, especially in industries which are already sufficiently crowded with competing establishments to make the chances of a new venture somewhat doubtful. The higher charge would not of course, be prohibitive of new ventures altogether; it should only be so high as to obtain an implicit guarantee of the belief of the promoters that the new venture would in all reasonable probability be a success. Judging from present conditions in Calcutta and Bombay, this suggestion if adopted, would add any from 1 to 3 crores to the revenues.

† For the origin and early working of the Salt Duty see Dutt's "India in the Victorian Age" page 144 et seq. According to him the Salt Revenue of the Company was £800 000 in 1793 and rose to £1 300,000 in 1844. In these fifty-two years the total quantity of salt manufactured was a little over two hundred million maunds, and the total income from the same was over sixty milion sterling. He also points out that by including in their Cost Price the expenses of securing and protecting the revenue, the Company afforded considerable advantage to the English importer into India at the cost of local manufacturer though the original principle as laid down by the House of Commons was an equal treatment of both the local and the foreign salt. Lord Dalhousie noticed this difficulty and minuted for its removal. A considerable section of English opinion, however, agitated for the abolition of the salt duty altogether, and the Indian public opinion such as it was, supported the idea. In the memorials quoted by Mr. Dutt it was urged that "the consequence is that either the people go without salt altogether or substitute an unwholesome article obtained from the common earth impregnated wtih saline particles, which they manufacture at the risk of punishment; the procurement of salt other than that of monopoly being prohibited under the penalty of fine and corporeal punishment, inflicted at the discretion of the collector of his Tahsildar" Commons Fifty Report 1853. Appendix 7

On questions of general principles the Government of India have regarded Salt revenue, in the semi-monopolistic manner in which it is derived, as a peculiarly suitable source of public income. Said the Duke of Argylle :—

"On all grounds of general principles salt is a perfectly legitimate subject of taxation. It is impossible in any country to reach the masses of the population by direct taxes. If they are to contribute at all to the expenditure of the State, it must be through taxes levied upon some articles of universal consumption. If such taxes are fairly adjusted, a large revenue can be thus raised not only with less consciousness on the part of the people but with less real hardship upon them, than in any other way whatever, There is no other article in India answering this description upon which any tax is levied. It appears to be the only one which at present, in that country, can occupy the place which is held in our financial system by the great articles of consumption from which a large part of the imperial revenue is derived. I am of opinion, therefore, that the salt tax in India must continue to be regarded as a legitimate and important source of public revenue. It is the duty, however, of the government to see that such taxes are not so heavy as to bear unjustly upon the poor, by amounting to a very large percentage upon their necessary expenditure. The best test whether an indirect tax is open to this objection is to be found in its effect upon consumption. *

THE HISTORY OF THE SALT REVENUE IN INDIA.

Under the native administration salt was taxed, according to the Imperial Gazetteer, Vol. IV. 250 page, in varying circumstances and at very different rates. The tax was one of a number of transit dues levied by the local government in each part of the country upon traffic passing along the main roads and navigable rivers. The East India Company continued this system of transit duties with elaborate arrangements of a customs house on the European model, thereby causing immense hardship, and multiplying occasions of corruption among the subordinate, low-paid officials. With the exception of the transit duties on cotton and sugar, these were abolished in 1843, and the loss of revenue caused thereby was made up for by the enhancement of the Salt Duty in the different provinces.† The cotton duties were abolished in 1855, while the Salt Duties were gradually reduced until between 1869 and 1877 the Salt Tax in Lower Bengal was Rs. 3 a maund, in the United Provinces Rs. 3 a maund, in Madras and Bombay Re. 1/13, and in the regions beyond the Indus a few annas only. This variation in the price or duty of salt was due to the different measures that had to be adopted to secure the revenue in the different provinces according to the different sources of supply. The salt sources which supplied the United Provinces and a portion of Bengal were situated in the Native States of Rajputana, the salt from which was charged a duty when entering British territory. This process of collecting duties demanded the maintenance of stringent preventive measures. To prevent the untaxed salt from Rajputana, or the lightly taxed salt of the West and the South, from coming into the regions of higher taxation, a Customs line, of over 2,500 miles had to be maintained. ‡ Naturally, therefore, there

* Dispatch of the Secretary of State, dated January, 21, 1869, quoted page 222 of the "Financial and Public Works of India, 1869-81 of the Strachey brothers.

† The loss of revenue was estimated at £345,000 by Lord Lytton in the Legislative Council, February 9, 1878.

‡ "The line was guarded by an army of nearly 13,000 men and consisted along a large part of its course of a huge cactus hedge supplemented by stone walls and ditches." (Imperial Gazetteer Vol. IV page 250,1). The wall was compared and comparable only to the great wall of China and with about equal degree of success, in the achievement of the object in view.

was considerable hardship to the trade between the parts of the country thus divided, not to mention the possibility of great variation in the prices of salt in the different provinces. To remedy this evil, Lord Mayo's Government acquired in 1870, a lease of the Sambhar lake to control one of the most important sources of salt in Rajputana at the same time to increase and cheapen the supply in the present United] Provinces. By 1874 the Customs line was reduced by nearly one-third. The remaining salt sources of Rajputana were similarly acquired by Lord Lytton's Government which resulted in the complete abolition of the internal customs line. With a complete command of all the available sources of supply, the Government of India could next proceed to equalise the Salt Duty in the different Provinces in 1878, when the duty in Bengal was reduced from Rs. 3-4 to Rs. 2-4 a maund, while that in Bombay and Madras was raised to Rs. 2-8- a maund.* The uniform rate thus created was further reduced to Rs. 2 a maund in 1882, but this reduction was short-lived, since in 1886 financial difficulties compelled the restoration of the old rate of Rs. 2½ a maund. From the first of April 1879, the customs line was abandoned with the exception of the Indus frontier, which had to be maintained to prevent the highly taxed Kohat Salt from being smuggled across the frontier. In 1896 the Kohat Salt duty was incressed to Rs. 2 Lahori maund, (equal to Rs. 1-10-0 per maund of 82½ lbs.) and at about the same time proper arrangements were made to prevent smuggling. The last remnant of the old Indian Customs Line was abandoned in that year. Owing to a steady decline in the rate of the rupee, and to recurring famines, frontier expeditions, plague and other similar unexpected expenditure, the Government of India was unable to reduce further the Salt duty until 1903, 1905, and 1907 when it was successively reduced to Rs. 2, Rs. 1½ and Re. 1 per standard maund.†

SOURCES OF SALT SUPPLY AND MODES OF LEVYING THE TAX.

The principal sources of salt production in India are:—The Salt Range and the Kohat Mines in the Punjab and the North-Western Frontier Provinces; the Sambhar lake and other saline deposits in Rajputana: the salt soil on the border of the Lesser Runn of Cutch; and the sea salt factories in Madras and Bombay as well as at the mouth of the Indus. Of the total salt consumed in India nearly

* Sir John Strachey in his Financial Statement for 1877-8 thus describes the Interna Customs Line. ' It is easy to give illustrations of my meaning...........There are the Inland Sugar Duties to which also I shall refer again presently; six years ago I heard them called in this council the most discreditable relic of the dark ages of taxation that exists in India.......Take again the system under which we levy our Salt Revenue in Northern India; no one denies that it is a positive disgrace to a civilised Government; but it remains unaltered."

The object of the changes in the Salt Duties was thus expressed: "To aim at giving to the people throughout India the means of obtaining with the least possible inconvenience and at the cheapest rate consistent with financial necessities a supply of salt the quantity of which should be limited only by the capacity of the people for consumption." Sir John Strachey's Financial Statement 1877: the result of these changes was an increase of duty on 47,000,000 people by 40 % and reduction of duty on 148,000,000 people by 8 % to 15 %. In 1871 the consumption was 23,031,000 maunds and the net revenue £5,686,335. In 1879-80 the consumption was 27.28 and the revenue was 6,572,000.

† Up to the reduction of the salt duty in 1907, the rate of salt duty in Burma differed from the uniform duty in India. Imported salt there paid only Re. 1 per maund. The total salt produced in Burma was taxed direct on the output at 8 annas per maund, since 1911 raised to 10 annas. The Mandi state salt mines are worked by the state under a special agreement, and taxed relatively lower. The rock salt of Kohat range is since 1905 subject to the uniform Indian tax.

30 % is imported from other countries by the sea; over 45 % is produced by the maritime provinces of Madras and Bombay, or, including Sind, nearly 50 % and Northern India mines supply the rest. On imported salt a duty is levied equal approximately to the duty on inland manufactures. As for the salt produced in the country, there are two principal methods of levying the duty; the Government either manufacture the salt itself, or obtain a monopoly of supply by requiring private manufacturers to sell to Government only. In some cases, as in Madras, the Government levies an excise duty and allows the manufacturer to dispose of the salt to the private trader and consumer as he best can. Government factories are in some cases leased to private individuals, who manufacture and dispose of the salt under a License from Government. The following table shows the proportion of the revenue from the various methods :—

Year.	Sale of Government Salt. Rs.	Excise on Local manufacture Rs.	Duty on Imports. Rs.	Miscellaneous Rs.
1899-00 ..	23,09,850	5,75,61,381	2,68,62,590	5,22,368
1900-01 ..	24,16,985	5,95,79,921	2,73,63,338	4,97,943
1901-02 ..	22,49,643	5,90,51,500	2,70,10,667	4,80,534
1902-03 ..	23,54,323	6,10,90,510	2,73,07,967	5,45,666
1903-04 ..	26,33,915	5,20,78,125	2,15,16,996	5,27,937
1904-05 ..	27,41,005	5,28,04,176	2,42,01,531	5,74,808
1905-06 ..	28,42,792	4,33,43.010	1,89,29,574	5,31,767
1906-07 ..	29,78,155	4,21,69,347	1,97,86,765	5,06,324
1907-08 ..	31,33,246	3,23,48,261	1,40,16,956	5,86,357
1908-09 ..	3105,930	3,09,54,947	1,44,88,770	5,69,157
1909-10 ..	29,57,037	3,12,94,368	1,47,80,837	6,11,637
1910-11 ..	31,69,973	3,05,63,143	1,34,45,954	6,73,119
1911-12 ..	29,57,037	3,24,15,458	1,46,22,854	6,59,895
1912-13 ..	31,69,973	3,23,17,982	1,37,27,660	7,27,323
1913-14 ..	32,42,646	3,27,63,304	1,49,85,311	8,08,367
1914-15 ..	45,50,412	3,75,62,091	1,61,02,716	7,36,622

The subjoined figures of the gross revenue, expenditure, net revenue and consumption would also be interesting as affording evidence of the influence of a low rate of duty in stimulating consumption and consequently adding to the total revenues.* These figures, it will be noticed, show a regular decline in revenue in each year that the rate of duty was reduced but the decline is soon made up by increased consumption owing to the reduction in price. The duty

* The figures relating to consumption in the second table are in millions of maunds, while the revenue figure in last column in the first table is in thousands of rupees. The consumption figures are the quantities issued in different provinces in payment of duty. Variation in the quantity of stocks held by the dealers sometimes considerable, causes divergence between the actual consumption and the issues of quantities. In addition there are about 500,000 maunds issued free.

was reduced by 50 % or 60 % if we leave out of account the recent rise of account of the War.

Year.		Revenue. £	Expenditure £	Consumption. Mds.	Net Income £
1861-62..	..	4,563,081	646,931	22.8	3,916,150
1871-72..	..	5,966,595	477,368	22.8	5,589,227
1881-82..	..	7,375,620	486,269	27.4	6,889,411
1891-92..	..	8,636,182	429,013	33.3	8,207,169
1901-02..	..	5,939,310	343,630	36.6	5,595,680
1902-03..	..	6,184,405	345,891	37.4	5,836,514
1903-04..	..	5,250,465	331,191	38.2	4,921,274
1904-05..	..	5,354,768	345,102	39.9	5,009,666
1906-07..	..	4,362,706	364,489	41.3	3,998,217
1907-08..	..	3,338,988	363,484	43.8	2,975,504
1908-09..	..	3,276,159	g43,108	45.2	2,935,051
1909-10..	..	3,319,518	330,743	46.1	2,988,775
1910-11..	..	3,175,950	377,076	46.5	2,798,825
1911-12..	..	3,391,212	368,499	46.1	3,022,703
1912-13..	..	3,334,374	374,008	48.2	2,960,368
1913-14..	..	3,445,305	365,373	47.2	3,092,079
1914-15..	..	3,910,790	360,517	48.3	3,550,273
1915-16..	..	3,647,587	376,722	47.4	3,270,865
1916-17..	..	4,826,260	398,186	51.0	4,428,074
1917-18..	..	5,499,487	427,457	44.8	5,072,030
1919-19..	..	4,277,989	553,100	52.0	3,724,889
1919-20 .	..	3,751,000	563'600	49.5	3,190,400
1920-11..	..	1,488,400	769,000	52 8	3,719,400

As already observed, the salt revenue is considered by the Government of India as a legitimate source of public income, not only because it forms an appreciable proportion of the total revenues, but also because it is, according to the official theory in the matter, the only way in which to tax a large proportion of the community, who cannot be got at by any other tax in the entire system.* But even apart from the land revenue, the pressure of which is borne by two out of every three persons in India, who must also bear the burden of the salt duty unless they were prepared to escape the burden by ceasing altogether to use the commodity, the mass of the pepole bear more than their own fair share in the revenue contributed under the head of Excise, Stamps, Customs, Railway and Irrigation receipts, Provincial rates, Forests and others. These make up the bulk of the tax revenue in India, and as it would be impossible to tax for the use of salt only those people who pay no other taxes at all,

* "The salt tax is the only contribution toward the public expenditure that is made by a large number of the people." (Sir E. Baker's Financial Statement 1907-08). Sir Edward Law thought the people in general contributed 20 % of their income to the Customs.

the statement would be utterly inaccurate that the Salt Tax is the only means to reach a large proportion of the people of India. It is almost impossible to find a citizen of India who neither possesses land, nor uses intoxicating drugs or drinks, nor goes to law, nor consumes Forest Produce or wears clothing home-made or foreign, nor pays income tax, nor travels by Railways; and so it would be absurd to say that the salt duty is the only means to reach that section of the community which otherwise would escape all tax-burdens. The tax, moreover, is further objectionable, in that it does not permit of any variation in the rate to suit the ability of the tax payer. And as it is an important necessary of life the rich and poor alike must use it in the quantities they need without much regard to the price. It is true, the reduction of duty has shown an increase of consumption, but the fact argues, not the possibility of much further increase in the same direction, but rather the under consumption due to an oppressive duty in the past. On the other hand, it is true that the salt duty, as now levied, has taken the place of the old, oppressive transit dues. To the extent that these have been altogether abolished, the retention of the salt duty must be admitted to be not altogether injurious. Though when this fiscal reform was first thought of the prospective loss of revenue from the abolition of the Transit Duties was sought to be made up by an increase in the Salt duty rate, the saner policy has since prevailed, and the reduction or an increase in the rate of the salt duty is now considered solely by itself.

It may also be admitted that the construction of railways and the improvement in the transport condition in general, have resulted in a substantial diminution. It was Rs. 5 in Bengal in 1871, Rs. 2.7 in Bombay and Rs. 4.8 in the United Province. In 1901-02 the same provinces showed a price of Rs. 3/8, 3/3 and 3.7 respectively, while in 1911-12 the prices were 1.8, 3.2, 2.13 and 2.06 in the provinces referred to. This improvement in the price does, no doubt, offer an effective set off to the existence of the duty. The only drawback that the critic of the policy need mention is that the duty as charged to-day falls on the subjects of the Native States as well as of British Government in India while before 1878, the subjects of the Rajputana Native States were exempt from taxation of this kind. But as Sir J. Strachey has pointed out it is possible to consider this an indirect mode of making these people contribute to the expense of the British Government, though it must not be assumed that they are altogether free from taxation.

The question would, perhaps, be beyond the pale of practical politics to consider whether salt duty should at all be levied in India. At the present rate of taxation, the revenue from that source is about $2\frac{1}{2}\%$ of the total; and even at the prewar rate it would not be materially different. With the burden of the recent unproductive debt added to the finance, it seems most unlikely that any Indian financier would consider in the next generation the possibility of remitting the

duty altogether. But theoretically the tax falls on a necessary of life, the restricted consumption of which cannot but have undesirable effects on the health and physique of the people. In this respect it is unlike the other items in the Excise Bill, where the commodities taxed are all more or less deletrious, and consequently no one need regret the restriction on consumption caused by the duty. On the other hand, this is the one duty which is contributed alike by the rich and the poor; though impossible to gradute according to the ability of the tax-payer, it is nevertheless a source of income which has a definite limit placed upon it irrespective of the incidence of the tax. The figures of income would not increase appreciably even if the tax were reduced to one-half its present rate. At a fair low rate, therefore, there is no reason why the tax should not be continued, particularly if suitable exemptions are granted to every consumer for Industrial purposes.

CHAPTER V.

EXCISE AND CUSTOMS DUTIES.

LIV.—General Principles of Excise Revenue.

We may assume as a fact, the existence of which need not be doubted, though its justice and propriety may form the subject of dispute, that in all modern states taxation of the principal articles of consumption forms an important and integral part of their fiscal systems. The two chief forms of this taxation which give rise to the most interesting question of the Science of Finance, are the Excise and the Customs Duties, which have been taxing the ingenuity of impecunious financiers and the intellect of the ingenious writers, for the whole of the last century and more. To take the Excise Revenue first, the terms are confined to the taxation of articles of consumption produced within the country, the tax taking the various forms of a License duty or fee, a simple duty on output, " octroi " or Transit duties, or Monopoly prices. The progress of Society has been characterised in Europe by a steadily increasing revenue from the Excise system owing to the improvement of the standard of life and the consequent increase in the wants of citizens and the means to gratify these wants, so that the modern European State derives a very considerable proportion of its revenues from this system of Excise.* In favour of this system of taxation it is claimed that it is not only convenient to the tax-payer, in that he would pay as and when he obtains the taxed commodity and in proportion as he uses that commodity; but that he is himself the judge as to whether or not to use the commodity, and if to use it, how much. By this means, it is alleged, the tax payer indicates his own ability and thus facilitates the apportionment of the burden of the tax in the most equitable manner. We have already seen how far this specious argument is really to be relied upon, especially as regards the measure of ability furnished by Indirect Taxes on consumption.† We need not dwell at length on the reasons which have recommended Indirect

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* Before the War in U. K. the Excise Revenue Was £38.85 million out of a total revenue of £195.82 million or 20 %. In 1918-19 the yield was £ 59.44 million out of a total of £ 889 million or 6. 7 %

† See the discussion under the section dealing with the principles of Direct Taxation in the preceding chapter.

Taxation of this kind to certain Governments in the past. But we must observe that these taxes would achieve their object only if the articles selected are not only of such general consumption as to afford the greatest possible revenue, but also capable of being really apportioned according to the financial ability of the tax-payer. The attempt to discriminate between luxuries and necessaries, and to adjust the tax rate accordingly, does not always prove a success. Not only are luxuries unproductive owing to their quantity consumed being necessarily small; they are apt to defeat the object of the financier by a sudden shifting of demand due to a change in fashion or any such incalculable factor. The modern needy exchequer cannot, therefore, rely upon the taxation of luxuries alone as an adequate source of income. On the other hand taxation of articles of general consumption suffers from the defect,—rather a grave defect in these days of militant democracy,—that it leaves no means of exempting from taxation a minimum of income. We may, indeed, emphasise as we like the abstract duty of every citizen to contribute to the support of the state in proportion to his ability; but the existence in every modern state of large numbers of people habitually living below a decent minium of existence makes this maxim a sad travesty of distributive justice in practice.

Under these circumstances the excise duties tend to be narrowed down only to those commodities, which, being of general consumption, are likely to yield a substantial return, without causing undue hardship to the tax-payer. Even so, the list of excisable articles must not be very large, or else the sheer difficulty of supervision and the expense of preventive establishments would compel the abandonment of the schedule. In a smaller list the insistence on productiveness of the tax would lead to one of two alternative results: either the rate of tax must be very high,—a position which would be supported only when the taxed article, though widely consumed in the community. is open to some moral or social objection, and thus facilitates the task of the financier in adjusting duties with a view to reduce consumption on moral if not on fiscal grounds; or else the articles selected are such as being of the widest possible demand, which does not vary from year to year, would yield even at a moderate rate a heavy revenue. We can illustrate both these alternatives in the Spirits Duty and Tea Duty in England, the one an instance of Excise, the other of the Customs revenue. However the tax is adjusted, the assessment and collection would be much simplified if the articles taxed are produced under conditions which render supervision and control easy and concentrated and relatively inexpensive. With this last object in view the best framed fiscal system would endeavour to levy the duty at the most favourable point in the transit of the taxed commodity from the factory to the hands of the consumer. The convenient moment for taxation may of course vary according to the nature of the different industries; and, if it is sought to conceal the total burden of the tax it may be divided at more than one point in the career of the same commodity. The possibility of distinguishing between the various classes of commodities of the same generic description according to their degree of

deleteriousness would enable the financier in certain taxed commodities to vary the rate so as to penalise the most harmful consumption.

The one danger in taxation of articles for consumption which is produced within the country is that too great a regard for revenue may lead the financier to raise or manipulate duties without considering possibilities of evasion. It is true, indeed, that in most commodities liable to Excise duties the present financier is able to judge accurately of the quality and even the quantity produced, and to adjust his tax rates accordingly. But the same genius leading to perfection of appliances for testing quality is expressed in another direction by increasing facilities for producing substitutes to the taxed commodities and thus avoiding the tax altogether. If the rate of the tax is high enough to encourage substitution, the Excise Schedule should have to be framed with a view to include all possible alternatives or substitutes. It would have to be reconsidered periodically to admit of any alterations demanded in fiscal interests by the advance in Science. Above all it must be framed with a due regard to the possibility of foreseeing competition in any taxed commodity. An Excise system framed independently of the Customs Tariff is nowadays almost inconceivable, thanks to the modern facilities of transport and the consequent readiness of competition in similar articles produced by different countries. Unless a country has a natural monopoly of the taxed article, or unless the monopoly has been acquired (*e. g.* Tobacco Monopoly in France), the Excise rates must never exceed the Customs duties, and must be in close correspondence with those dues. The system of monopoly in excisable articles is perhaps the most suitable from the point of view as much of administrative convenience, and fiscal productiveness, as from any social and moral point that may have been adopted tacitly or openly in the manipulation of the Tariff and the Excise.*

LV.—EXCISE REVENUE IN INDIA.

The Excise Revenue of the Government of India is derived from intoxicating liquors, hemp drugs and opium consumed in the country, and is levied in the form of duty on manufacture and sale of licenses by fees. † In the paucity of our information as regards the system of Excise Revenue in the Pre-British days, it would be difficult to draw conclusions as to the effects of British Rule in the spread of the drink habit. ‡ But, in any case it seems to be fairly well established that the indigenous governments, whether those now in existence or those which the British

* Monopoly as a fiscal weapon has been almost unknown in the British fiscal system since the days of the Tudors. But the Tobacco monopoly in France, the Vodca monopoly of Russia, the Camphor monopoly of Japan, to give but a few illustrations have proved sufficiently successful in practice and for a long time to justify us in quoting them as successful precedents to support the view favoured.

† There is a form of Excise Duty, which is not included in the accounts under the head of Excise proper, viz., the Cotton Excise accounts receipts from which are credited to the head of customs.

‡ That the habits of the people were surprisingly temperate seems, to be confirmed by the severe peanalties and prohibitions imposed by the Law givers of the Hindus and Mohomedans alike. On the other hand, in spite of these strictures, it is a notorious fact that at least in the Imperial House of the Moguls consumption of wine was by no means unknown; and judging from frequent references to such habits in the profane literature of the Hindus, they too do not seem, as a matter of history, to have been entirely free from a desire for stimulants. It is difficult to believe that the vice of intemperance could not have been utilised by the earlier governments in India as a source of public benefit. In fact the East India Company did derive considerable revenue, as noted in the Introduction, from the Abkaree systems of the indigenous governments it had replaced in the various provinces.

Rule has supplanted, have had some system of "Abkaree Revenue" derived from the consumption of intoxicant liquors or drugs, which was so commonly handed over to "Ijardars" or farmers of these branches of public income. The British Government inherited, and for a considerable period continued, this system of farming, but, while disinclined to undertake any violent departures from the prevailing systems and habits, the present Government has felt more and more the indisputable claims of social and temperance reformers, who would abolish if they could, the drink habit altogether by this powerful lever of state action and regulation of the manufacture and sale of the intoxicants. Since 1888, if not earlier, the general principle of deriving the maximum of revenue with the minimum of consumption has been accepted, and to this end we find the various provincial Governments instructed to raise their rates of Excise Duty, at the same time that they should check illicit consumption and minimise the temptations to drink among the people, by the more restricted number of shops for the sale of such article the more restricted hours of business, the more stringent precautions as to the situaton and working of such places.*

The Policy of the Government of India has been thus defined :—

"The Government of India has no desire to interfere with the habits of those who use alcohol in moderation. **This is regarded by them as outside the duty of the Government,** and it is necessary in their opinion to make due provision for the needs of such persons. **Their settled policy, however, is to minimise temptation to those who do not drink, and to discourage excess among those who do; and to the furtherance of this policy all considerations of revenue must be absolutely subordinated.** The most effective method of furthering this policy is to make the tax upon liquor as high as it is possible to raise it without stimulating illicit production to a degree which would increase, instead of diminishing, the total consumption, and without driving people to substitute deleterious drugs for alcohol, or a more for a less harmful form of liquor. Subject to the same consideration the number of liquor shops should be restricted as far as possible, and their location should be periodically subject to strict examination with a view to minimise the temptation to drink, and to conform as far as is reasonable to public opinion It is important to secure that the liquor which is offered for sale is of good quality and not necessarily injurious to health."

Excise Resolution of the Government of India. †

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* Compare the Despatch of the Government of India No. 294 of 1908, and their orders on the Report of the Indian Excise Committee 1905-06. Also the papers published in 1914 on the Indian Excise Policy.

† The figures for 1919-20 represent the revised estimate while those for the current year are budget estimates. Thus in the last twenty years the revenue from esxcise has risen from well under Rs. 6 crores to slightly over 18 crores, or a rise of about 300 % ; and is still steadily growing.

This steadily growing revenue causes considerable speculation as to the explanation of this growth. The critics of the Government of India see in this growth of revenue an unmistakable evidence of the growth of consumption of intoxicating liquors and drugs, and the consequent spread of intemperance, with all its attendant evils. On the other hand the Government of India and its officers find the explanation of the growth of the revenue in the improvement of the systems of control, and consequent increase in the recorded out-put, which previously did not come under observation, but did not the less exist for that reason; in the spread of a desire to imitate the rulers of the country in the habits of western civilization; in an unreasoning desire to testify the individual independence from conventional, dogmatic restrictions on life and sentiment: in the improvement in the economic condition of the people by the development of trade and industry, and the consequent redistribution of population from the field to the cities, with their greater opportunity and temptations to indulge in this vice; in a certain inevitable need for excitement in a community beginning "to live upon their nerves."; and, finally, in the increased rates of the duties levied. The Government do not gainsay the ideal of the Temperance Reformer in India, in that they are prepared not to increase temptation to excessive indulgence, and even to minimise opportunities in cases where a sense of imitation would superinduce unhealthy habits even where originally they did not exist. But from an administrative point of view, as well as for reasons of political importance the Government cannot all at once accept and carry out a policy of total abstinence.* Before, however, we can properly estimate the strength of the reasoning on either side it must be noted that at the present time the difference between the Government and their critics is one not so much about the ultimate ideal as to the means to achieve it. As the criticism comes to be concentrated upon the existing means of levying the revenues under Excise, we shall do well first to examine briefly.

LVI.—THE INDIAN SYSTEMS OF COLLECTING EXCISE REVENUE.

The progress of the Excise administration proceeds from the old crude system of farming the revenue to the more modern idea of bringing the manufacture and sale of the intoxicants under some sort of Government control; and thus to accomplish the double end of regularising, increasing and manipulating the duties so as to restrict consumption, as well as to guarantee a certain degree of purity and strength in the liquor consumed. The first improvement in the old farming or "Out-still" system of taxation was to limit the number of shops in the area farmed, and next to establish an improved Outstill system, whereunder the combined right to manufacture and sell at a special shop was annually granted on payment of a tax. By means of the sale fees under this system,

* See, for a fuller exposition of the agruments for and against, the memorial presented to Lord Hardinge by the President of the 9th Indian Temperance Conference' Dr. Sarvadhikari, and the correspondence with the local governments and administrations in relation to the excise policy of India published by the Government of India in 1914. The report of the Indian Excise Committee of 1905-06 may also be mentioned here, though it will again be more fully referred to later.

Government was enabled to impose, and to some slight extent, regulate taxation on the drink traffic as a whole. But it was impossible to graduate the tax on the till-head principle, or insist on a standard quality or degree of strength. Besides, for political and social reasons, Government could not exercise all the control on the drink traffic as a whole which was possible even under this crude method. There were tribes of aborigines who regarded the privilege of making their own liquor in their own homes as a right, which the Government was not prepared to deny, especially when it could be pleaded that the liquor demanded was for purposes of a libation to the Deity, and must therefore not be touched by any but the hands of the devotees. Any introduction of a system which would enable the Government to watch carefully the consumption of intoxicating drink, and to prevent its excess, was, it was felt, likely to rouse hostility and promote illicit production, to avoid which it was considered best to proceed with caution. As, however, the administration grew stronger and more settled, more consolidated, the numerous old-time pot-stills scattered throughout the country were more and more brought under Government control under enclosures called " the Central Distilleries ", which narrowed the region of supervision, enabled a more graduated duty to be imposed upon every gallon turned out, or issued from the still and altogether facilitated and increased control. The manufacture of the liquor and its subsequent disposal was further improved by means of Transport Passes, Vend Fees, and improved distribution.

The next stage in the development of the Excise policy was the adoption of the principle of the Still-Head Duty. At the time when the Indian Excise Committee of 1905-06 was appointed, to investigate into and report upon the whole policy, the four main systems in operation were :—

(A) The system of **Central Distilleries**, which are mere collections of Native Pot-Stills in Government Enclosures. (B) The **contract Distillery** system of Madras, as worked there since 1901, which has now been adopted as a model in Bengal and the Central Provinces. Under this system the monopoly of supply in a district, or other selected area, is given out on contract, the contractor issuing his liquor at the rate of Excise Duty in force, and supplying vendors, at a fixed rate determined by tender over and above this duty, while the right of vend is generally disposed of by auction for each shop sanctioned. (C) The Punjab system, where the vendor can procure his liquor from any one of a limited number of licensed distilleries. Here, too, shops are as a rule separately sold by auction. (D) The **District Monopoly** system of Bombay. Here the monopoly granted extends to vend as well as to supply, the contracts are given not by competition but by selection, the rates of duty are low, and, subject to payment of minimum guarantee which is ordinarily covered by the amount of duty paid on issues, the contractor pays nothing for the privilege of the retail vend.*

* Report of the Indian Excise Committee Chapter II.

A. As regards the first of these systems, it allows the hereditary occupation of distillation to be continued and thus offers a supply materially similar to what the people have been accustomed to. It also entails in the early stage a minimum of expenditure on Government for purposes of supervision. Finally it occasions a reduction in price, when the competition is wide spread, when, that is to say, the system is conterminus with the boundaries of a province. But it would not admit of any improvement in the process of manufacture. Storage is difficult, though in the United Provinces a system of bonded warehouse was introduced with some degree of success. The cost of production also cannot admit of economies which would be easy under the system of large scale concentrated production. Its gravest disadvantage, however, seems to be that under that system the control of distillers' operations and a guarantee of quality are out of the question. Hence the Indian Excise Committee recommended:

> "On these ground the Committee concur with the Governments concerned in the opinion that the number-both of distillers and distilleries should be reduced... In those that remain they would reduce the number of distillers to a select few by insisting on the separation of manufacture and vend, on the introduction and maintenance of proper plant, and on a stricter system of control." (Report para 29.)

B. As to the second system the contract supply is intended to avoid the dangers of unregulated competition among distillers for the custom of the retailers by substituting regulated competition in the form of inviting tenders for the privilege of supply at a fixed price per gallon within specified areas for a given period. In Madras, however, contradistinguished from Bombay, the Government arrived at the present system by introducing it alongside with the existing private distillery system; with the result that, when the latter was admitted to be a failure, the government was handicapped by the absence of proper number of centres from which the distribution of the supply should take place, as also by the existing predominance of the single firm of distillers, which combined that business with sugar refining and thus was able to pay its way. Government have not had adequate buildings for ensuring a well-distributed system of factories. In other respects this contract supply has been claimed to offer a supply of liquor at a low and constant price, with the result that the Government can tax that supply accurately and profitably. The distiller, too, secure of his contract, is better able to lay in a store of material and make his calculations on a definite basis, while the retailer can best calculate the amount of fee that he can afford to pay for his license, since he knows definitely the price at which, within the given period, he would be able to obtain the articles desired. But the system endangers a monopoly of supply: or, in the alternative, compels Government to subsidise smaller distillers and incur great wastage in the expense of production. The monopoly might be avoided by breaking up the contract units but that would involve recourse to smaller distillers who cannot produce as cheaply as the large producer aiming at a monopoly. On the assumption of free competition the evolution of monopolistic tendencies would be inevitable under such circumstances, unless the Government checks the tendency by keeping up competition, offering a slightly higher rate to the

smaller men just enough to cover the absolute expense of production to the latter. The smaller distiller under this system is exposed to the further disadvantage: that in the event of a higher bid he may be turned out from his contract in the next succeeding period, and thus have no guarantee for the security of his capital investment, unless, as is now common in Madras, the Government offers a fair chance to the existing distillers, or buys out any one of them at a fair valuation in the event of his falling out of competition. Finally, it is urged against this system, that during the currency ofthe contract there is no incentive to the almost monopolist contractor to supply good liquor: and though Government prescribe quantity and strength at the time of giving the contract, it is at best a poor guarantee while the contract is in operation. The Report, already cited from, observed :—

> "The system, while far from being perfect, is the best working system of supply that has yet been devised.... In the opinion of the Committee the system has successfully stood the test of time, of comparison, and of criticism."

C. The Punjab system is based on the analogy of the English system, which, under certain restrictions and safeguards, allows any person to manufacture spirit and to sell it to any licensed retailors throughout the province. There is the obvious advantage in this system that the suppliers compete among themselves; and are therefore constantly being stilulated to their best to obtain and retain the custom of the retailers. The quality of the spirit thus offered is likely to be much better than under a system which would create a practical, if not legal, monopoly. The trade is free from restrictions which have to be imposed in other provinces and the country spirit market is supplied on equal terms with the spirit manufactured on European principles. On the other hand, the system offers no reasonable guarantee of the proper supply of outlying districts; and is certainly ineffective to control prices in the interest of the consumers, in the event of there being a combination among the producers to keep up the prices.

D. In the District Monopoly system the contractor is chosen not by competition but by selection, so as to guarantee a minimum consumption and consequently a minimum revenue: and if the minimum is exceeded he would have to pay the Still-Head Duty at the fixed rates on the excess consumption. The principle of selection in the choice of suppliers guarantees that the business would be in respectable hands; and as the system enlists the help of the supplier on the side of law it forms an excellent instrument to check unlawful practices on the part of retail vendors. The system is also easy to administer and removes the speculative element in the excise revenue of the province. But for the effective working of this system it is essential that the minimum guaranteed should represent the natural or normal consumption of the area under contract, If it fails to bring about this correspondence it would not succeed in making the contractor as active in the interest of the government as in his own. Owing to the difficulty, however, of fixing the minimum guarantee, the contractors tend in practice to become monopolists of manufacture and sale subject to the payment of a Still-Head duty, The system also combines the monopoly of manufacture with that of the sale of

liquor and as such is open to serious objections. Though conditions may be imposed upon the contractor at the time of granting the contract, it but too frequently happens that the interest of the contractor lead him to neglect the spirit of the conditions even when he observes them in the letter. Complaints are frequently made that the contractors exceed the fixed prices, that they wink at malpractices by the retail vendors, maintain no efficient preventive establishments, and that they have failed to prevent illicit distillation.

The recommendations of the Indian Excise Committee, as already shown favoured the Madras Contract Supply System, which therefore, replaced the existing systems of Bombay, and improved the systems in the United Provinces, Bengal, Behar, and Orisa and parts of the Central Provinces. Under all these systems the main incidents of the tax are similar. The revenue from intoxicant liqours is derived from two main sources, duties on the issues of liquor, and sums paid in respect of the right of retail sale. The right to supply a given area is granted under the normal arrangements now prevailing all over the country by contract, thus preventing unrestricted competition and facilitating proper supervision. The restrictions imposed upon the contract help to secure for the government the greatest proportion of the monopoly profits. Spirits produced in distilleries pay a Still-Head duty: Out-Still spirits are manufactured and sold under a right to that effect obtained by auction. Licenses for manufacture and retail sale account for the bulk of the revenue from country beer, while the toddy consumption is taxed by means of a fixed fee on every tree from which it is intended to draw the liqour; as also the sale by auction of the right to retail vend- Spirits and other fermented liquors, manufactured on European principles, are taxed at the same rate that is levied upon similar articles imported from abroad, the revenue from these import duties being credited in the accounts under the head of Customs, though even in this case, sale license fees have to be added to make up the total Excise revenue. In some cases the manufacture of local spirits, *e. g.* the drawing of toddy, owing to the back-ward condition of these tracts, is made tax free or subject to a nominal fee, but the exemptions of this nature tend to be restricted. As for the sale of licenses for the right to retail vend it is accomplished by annual or at most trienial auctions, with the result that the growth of considerable vested interests is prevented at the same that the highest revenue is secured to the Government. Licenses for the sale of Foreign liquor are usually granted on the payment of fixed fees. As for the number and distribution of shops, the Government of India in pasing orders on the report of the Indian Excise Committee laid down :—

> "If shops are allowed to be so sparse that each has a practical monopoly over a considerable area, prices will inevitably be raised and illicit practices encouraged.......... On the other hand while shops need not necessarily be so limited as to make it impossible for a resident in a particular area to get his liquor except from one particular shop, it should only be possible for him to do so at a cost of considerable inconvenience ....If two or more shops are equally convenient to a number of persons the fact affords what the Government of India would regard as prima facie evidence that the number of shops in that particular area is excessive."

Under these orders the local government were invited to consider the redistribution of the shops in their jurisdiction, and, wherever practicable, to determine the locality and the number of such shops in conformity with local opinion, as voiced by advisory Committee set up in every province for the purpose

LVII. CRITIQUE OF THE INDIAN EXCISE SYSTEMS.

After the review of the prevailing systems of taxation we may proceed to consider the question: whether or not the drink habit and intemperence have made any dangerous progress; and, if so, what steps should be adopted to prevent the evil. In this connection the marginally noted statistics of consumption by provinces in the last decade would be instructive. In every case there is a considerable increase in the issue of spirituous liquors.* In the country as a whole the consumption shows a decided increase, though not in the same proportion as the increase in revenue As already observed the official explanation of this increase is contained in the possibility of better records of consumption under the new system of Still-Head duty, which is rapidly supplanting the old Out-Still system, as well as in the improved economic conditions of the people. Accepting this explanation the Temperence Reformer would still contend that the Government of India is as far as ever from the ideal of putting taxation the harmful habits engendered by a false sense of limitation and misconception of down by civilization the Western The enormous interest of the Government itself, which now finds a very important and growing source of its income dependent upon the drink traffic, cannot but expose it to some suspicion as to the genuineness of its endeavours to curtail the drink habit and to prevent its spread. This dependance will be all the greater in the new system of financial autonomy in the Provinces, under which Excise becomes universally a Provincial head. It is true the Government of India has not yet accepted officially the ideal of the Temperance Reformer to be absolutely ending the habit of drink by legislative or fiscal coercion. But to those who regard that as the ultimate end of the activity of the State in this respect, it cannot but be a matter

Province.	Country Distillery 1905-6 Gals.	Spirits issue. 1912-3 Gals.
Madras ..	1,221,810	1,773,673
Bombay ..	2,392,423	2,448,954
Sind	183,175	211,691
Bengal.. ..	452,242	851,534
Behar and Orisa	308,350	1,157,615
Burma.. ..	449,530	57,391
United Provinces	1,148,888	1,689,932
Punjab ..	470,651	473,669
N. W. F. Provinces	17,358	24,298
Assam ..	30,520	247,363
Central Provinces	44,9835	765,032
Berar	525,993	436,374
Ajmere ..	39,449	51,780
Coorg	26,057	26,493
Baluchistan ..	..	23,599
Total	7,261,103	10,239,367
Foreign spirits.	1,621,491	1,325,084
Grand Total	8,882,594	11,564,451

* It is yet impossible to give a reliable statement of the consumption of intoxicating liquors for the whole of India owing to the impossibility of keeping any good record of the consumption of tody and other similar drinks as also to the imperfect records of Out-Still production. The above figures are from the Decennial statement of the Condition and Progress of India (1901-1911) P. 204 et seg. The following figures give a more up-to-date account of the consumption and Revenue in Bombay Presidency.

Year.	Gals.	Rs.	Year.	Gals.	Rs.
1910-11	2,615,526	1.69,11,158	1914-15	2,341.480	1,98,18,870
1911-12	2,545,588	1,80,04,782	1915-16	2,187,377	2,03,29,480
1912-13	2,458,950	1,88,64,964	1916-17	2,517,473	2,35,06,743
1913-14	2,456 582	1,99,28,495	1917-18	2,656,115	2,90,43,929
	..	..	1918-19	2,477,992	3,44,59,353

of regret that the Government should continue to derive, and be dependent increasingly upon, this revenue; since under those circumstaces every proposal for reform would be unconsciously viewed from the standpoints of its effects upon the exchequer.* The financial interest may not be deliberately sought to be made predominent: and we may also concede that every individual officer, if questioned pointedly, would probably give preference to the socia and moral over the purely fiscal considerations. But the danger of adopting measures which would reduce and ultimately destroy a source of revenue now yielding over 10% of the total revenue, and capable of doubling itself every ten years, are so serious that every executive officer is bound to hesitate before approving such measures, however unconscious, however unintentional this regard for financial considerations may be.

Given the influence of revenue in shaping the Excise policy of the country we must admit that within the limits thus set, the efforts of the Government have no doubt been directed to a reduction of the temptations and thereby also the use of the intoxicating drinks. The table in the margin shows the number of liquor shops in the country which undoubtedly displays a healthy tendency to decline. The reduction in the number of the shops in only indirectly serviceable in the cause of Temperance Reform, but none the less it is an effective means of combating the evil. Similarly the reduction of hours during which liquor is available exerts a tendency to reform or at any rate to minimise temptation to the Industrial worker who must thus get his supply if at all within certain hours, selected, still. it must be said, not without referenc to his convenience. But being limited they prevent undesirable excess. Legislation, moreover, of the type that was recently passed in Bengal and other provinces prohibiting the sale of drinks to young children has the same healthy, tendency and, to a degree, succeeds in the aim.

Year.	No. of shops.
1901 02	105,080
1902-03	107,741
1903 04	113,374
1904-05	113,116
1905-06	113,312
1906 07	110,286
1907-08	107,002
1908-09	93,355
1909 10	96,516
1910-11	91,066

* In reply to the circular letter addressed by the Government of India in August 1913, the local governments almost unanimously observed that the imputation that the Government officers are guided by revenue considerations in their excise policy is unfounded. In their final despatch to the Secretary of State, February 26. 1914. The Government of India write: "We desire to repeat the assertion made in that reply that we can find no evidence that officers aim at securing a large excise revenue through an increased consumption of intoxicants, or that they receive any encouragement to do so from their superiors. Such a procedure would be contrary to the whole spirit of British administration in India and we fully endorse the Punjab Governments' condemnation of these charges as cruel and unjust to the class of officers who form the backbone of our rule in India". This is strong assertion and yet one wonders if the Government of India do not really delude themselves. Revenue considerations may not be deliberately kept prominent; but they are bound to influence the judgment of any officer in executive capacity, not indeed with any hope of immediate promotion by a display of zeal in this case. but because it comes naturally to such people to have in mind such considerations. The test of the Government sincerity in this matter would be an announcement that the measures to be adopted would in future be such as altogether would end the drink traffic and thereby the income from that source.

The policy of raising the rate of the tax so as to make the drink habit a more costly habit is also pursued with the same object and hence we find, as the table in the margin shows, a steady increase in the rate of the tax. There is, however, one serious objection why the policy of merely raising the rate of the tax would not by itself be enough to restrict and eradicate the vice. The rates as now charged are not only not prohibitive, but they have a tendency to become increasingly less effective in proportion as the economic position of the people improves. Unless the rates are annually revised and raised the object is not likely to be accomplished, while revenues would grow at such a rate that the Government would become more and more unwilling at any time altogether to abolish the drink traffic. It is of course difficult to say how far the rates should be raised in any given year; and wehther when raised, there would not be possibilities of evasion of the duty by illicit production which would be more harmful from every point of view whether fiscal or social. This in fact is the greatest difficulty in the way of Reform. And we see no way to remove it, short of an **assumption by the State of a complete monopoly of the distillation and sale of liquor.** The profits which now go to the private middlemen will thus be saved. Government will have better records to base their periodical increase in prices. For some time there would be no danger to public revenues from this source; but Government with a monopoly can so regulate the supply as by sheer force of economic factors ultimately to be able to destroy the drink habit.

Province.	1901	1911.
	Rs.	Rs.
Bengal	5.7	7.6
Behar	..	3.2
Assam	..	5.0
United Provinces	3.5	4.7
N.W. Provinces	6.6	8.7
Punjab	6.3	8.4
Central Provinces	3.7	6.0
Burma	..	6.4
Madras	6.1	8.0
Bombay	3.7	5.1
Sind	5.0	6.1†

The establishment of a monopoly in the drink traffic will fail to attain the end in view, unless the alternative forms of intoxicants are similarly controlled, if not monopolised. Recent reports of the Excise Commissioners note the increase in the use of cocaine and other more deleterious drugs; and it is possible to argue that the object of Temperance Reform will not be realised unless every substitute for alchohol is similarly controlled. In the case of Bhang, Ganja, Toddy, etc. the control is at present exercised only through the system of licensing the shops where these could be sold. Complete and effective monopoly of these forms of intoxicants is not to be thought of for some time to come, though the experiment of the opium monopoly may suggest the possibility and invite a trial. The position, however, of the Native States, and the possibility of evasion of control or infringement of monopoly from beyond these internal frontiers, must be fully considered

† From the rates given above it does not seem as though the provinces with the most considerable wealth were taxed at the highest rate. Assuming that the higher the tax the less the chance of increase in consumption, equalisation of duties or at any rate their increase in proportion to the wealth of a province would add very much to local revenues. The progress in reducing out-still areas since 1905 has been considerable but there is still room for consolidation of the Excise Policy. Under the recommendation we have made, we estimate the total excise Revenue at not less than 35 crores.

before any policy of complete control can be seriously proposed. But making due allowance for all these factors the statement must be repeated that **the only way to cure the drink evil is to completely monopolise the intoxicants of every kind and thereby so raise the price rapidly, progressively, consistently as to make it beyond the power of all but the richest** classes to ruin themselves. We recognise, indeed, that there is a world of difference between the ideal of the Temperance Reformer and that of the Governments in India. The former aims at absolute abolition of the habit. The latter would not interfere with long-standing habits. Custom and prejudice would, therefore, confine their activities only to regulating and guranteeing a good supply of the stimulant, gradually raising the tax so as to make the habit more and more a luxury. It is impossible to enter at thls stage and in this work into the ethical aspect of the question: whether the Government of India does well to associate itself with such a source of the ruin of the people by making themselves dependent on the revenue derived from this source. While too sudden a break with habits of half-civilised people may undoubtedly cause political anxiety, which no settled Government can be expected to invite if it can be avoided, a full control of the sources and process of production, manufacture, and distribution, is inevitable if the ultimate end is ever to be realised. During the process of the suppression of the habit the state must derive a revenue which may, however, loose all the taint of its origin if the increasing dependance on that revenue is avoided, if the possibility of reproach of trading in the miseries of the people is at all destroyed whether by a monopoly or by license and sale duty. We think it would be really better if that revenue is derived in a form which makes the control of the source all the more feasible.

To this end, therefore, of restricting the spread of the drink habit as much as possible, by action of the state, the proposals now must commonly made are: That the licenses for the sale of intoxicants should be steadily reduced in number; that the hours of sale be further limited by later opening and earlier closing hours being compulsorily adopted by all licensed premises; that the auction system of licensing should be replaced by a system of fixed license fees as recommended by the Government Excise Committee of 1905-06; that the licensing function be removed from the control of the Revenue Department and placed in the hands of the Local Advisory Committees or some other independent authority. As the Government of India has never accepted the suggestion that the increase of revenue indicates an increase of intemperance, they have not looked quite favourably upon some of these suggestions. They apprehend the intemperate zeal of the Temperance Reformers so much that they are unwilling to extend the scope of the Advisory Committeee already in existence or to add to their number. On the other hand their aim is not to interfere with the habits of those who consume alchohol in moderation, and so they cannot accede to suggestions which would abolish the drink problem altogether.. The critics of the Government on the other hand are afraid

of too great a spread of the drink habit and regard the increasing dependence of the Government with a degree of apprehension. In our opinion even the suggestions mentioned above are more in the light of palliatives, than a bold attempt to strike at the root of the evil. The only thing that we can say in their favour is : that given the temper of the Government of India as it is constituted to-day, given also the difficulty of avoiding the greater evil,—illicit, uncontrolled production and consumption.—these suggestions seem to be the next best after the complete monopoly of the manufacture and sale, of the intoxicating drinks.*

The other portion of the Excise revenue which is relatively insignificant is derived from Hemp-Drugs, and Opium. The former source of revenue is governed by the recommendations of the Hemp-Drugs Commission of 1893. As the plant grows practically in every part of the country the revenue is derived by restricting cultivation under a system of licenses. After the plant has been harvested it is stored in bonded depots ; and before issue of any quantity to licensed vendors a quantitative duty is charged. As in the case of intoxicant liquors the retail sale of these drugs also is subject to a license fee. While private possession by unlicensed people is prohibited, no restriction is placed however on the use of a wild plant in the green state or if it is cultivated for the manufacture of fibre. The rates of duty which have been raised since 1905-06 vary from Rs. 5 to 14 per seer for " Ganja " from Rs. 6 to 16 per seer for Cheras. Bhang on the other hand is taxed at much lower rates in some provinces by acreage and transport duties only. Licenses which cover the retail sale of all forms of Hemp drug are usually sold by auction.

Before concluding this section, it must, indeed, be admitting that none of the measures suggested afford quite certainly the guarantee of a complete prohibition. It would be futile to charge the British administration as having increased the Drink traffic. In so far as it is the result of imitation it is voluntary. In so far as it is due to customs of old standing, it is rooted in prejudices and beliefs which have no apparent connection with any given system or personnel of administration. The new ministers in the Provinces will have a score of objects of deserving increase in outlay being pressed upon them, to be able to sacrifice this great source of revenue all at once. In the concluding chapter in this part of our work we have suggested certain alternative forms of txation, which might well replace the more objectionable older taxes. Tobbacco, increment in Land Values, manipulation of commercial Stamp duties in

* The transfer of the Excise department under the new constitution to an Indian minister opens up infinite vistas of speculation as to the future of the drink question. Bar fanatical opposition to intoxicants on religious grounds, there is no fear that the new Indian Ministers would be insensible to the claims of revenue in this must difficult question. If absolute prohibition is found utterly impossible and if a certain revenue most continue to be raised from the drink traffic the Government, under the new dispensation, would find themselves driven to accept the suggestion of monopoly made in this section, as it is the only way to safeguard the larger interests of the community without sacrificing the rights of minorities. There is an obvious guarantee, which local Governments, like that of Bombay, could offer to the critics of the prevailing Excise Policy, by at once doubling the rates of their Excise Duties, or by raising them to such a figure as would pay the whole of the Provincial contribution to the Imperial Exchequer. As this is a feature of the new financial system universally disliked it will be killing two birds with one stone, if the Provincial Contribution is thus made problematic.

places like Bombay, may be instanced here to meet a possible counter argument. But when all is said, we fear we can see no immediate prospect of a complete a cessation of **Excise Revenue as an index of the complete stoppage of the Drink Traffic.** While the latter continues, it would be imprudent to waste the revenues that could be obtained therefrom, it would be suicidal to forego the control over consumption, such as it is possible now. Hence our suggestion for a monopoly: our expectation of an increased yield; our recommendation of making Provincial contributions only out of the increased Excise Revenues, so that this unwelcome item of expenditure may fare as well, or as badly, as the possibility of increase in this revenue under Provincial management.

LVIII. CUSTOMS REVENUE.

The Nature and kinds of Customs Duties.

Considered historically the system of Customs revenue in all its forms seems to have been developed much before the counter system of Excise revenue. If we regard Customs duties as consisting of all tolls, dues or taxes, levied on account of a government, on the import or export of goods from every centre within that government, we shall find these duties a recognised source of the income of the Prince as well as of local governing bodies, in India from the earliest times.* In their nature these duties are like Excise duties, a charge on commodities—a tax on consumption. They differ from the latter only so far as they are levied on the **movements** of goods, is levied at some stage in the **manufacture or sale** of the taxed commodity. This difference—though it accounts for a very considerable dissimilarity in the administrative treatment of these two forms of tax revenues—is in the essence, insignificant. A proper Customs Tariff, famed with a view to revenue alone, must be adjusted on the same principles that govern the Excise Revenue. Thus in Customs, as in Excise, a tax would be productive only if it is levied not only on some selected articles of wide consumption, but also on all the possible commercial substitutes for these articles. But the financial aim of such taxation would be defeated if too many articles are taxed, as such a course would encourage smuggling. It is, therefore, best, from a purely revenue standpoint, to construct the Customs Tariff out of a few, well chosen articles of universal consumption, with gradations, if possible, in the rate of the tax according to quality, in order to make the tax more in accordance with the ability of the tax-payer. The purely financial standpoint would also require that all the commodities made subject to

* The fact that Customs Revenue does not meet with any prominent mention in the works relating to the Ancient History of India, can be explained on the ground that most of these duties were collected by town authorities at the gates of towns and were usually taken by the local Governing bodies. In the shape of transit duties, the Indian Customs duties have attracted considerable attention from the foreign students, and some of the early wars of the English in Bengal were directly caused by a difference of opinion between the Nawab, and the Company's servants on the question of these duties. In the maritime provinces, like Gujrat, a proper system of Customs Revenue for the benefit of the State or central Government seem to have developed very early.

Customs Tariff should, if produced at home, be made liable to an equivalent excise duty to prevent any deflection of industry.

The difference of administrative character between Customs and Excise has led to important distinction in their practical treatment. To prevent evasion of the Duty, it is regarded as of cardinal importance that Customs should be levied on only those articles which are to be imported or exported over considerable distances, and are of bulky character. Excise revenue is not confined to any such rules.* The need to adjust the tax burden to the wealth of the taxed community demands that the rate of the tax shall be in practice as low as is consistent with the financial interest. This course of low initial duties has the additional advantage of making the Customs Revenue more elastic in yield. In times of emergency by a mere increase in the rate of the duty on articles of universal, consumption the State can expect to obtain a nearly proportionate increase in revenue.

So far we have assumed that financial considerations alone guide the framing of the Customs Tariff. But hardly any modern country can pretend to a Customs Tariff exclusively framed on financial considerations. The unavoidable effects of any Customs Duties upon the industrial organisation have made it a guiding maxim that necesaries of life and materials for industries should, as far as possible, be exempted from such taxation. We need not here interpolate the controversy about Free Trade and Protection; but need only observe that a purely financial Customs duty would be as impossible to construct as it would be intolerable to maintain. At the same time, it must be admitted that the basic principle of every protection duty makes it impossible for that duty to be revenue yielding. To the extent that a Protective Duty is productive of revenue, it must necessarily be destructive of protection. And conversely, to the extent that it is protective it cannot be expected to be productive.† The larger place that the Customs Revenue occupies in the Budget systems of the leading countries—shows clearly that despite the professions of the Customs Legislators no existing system realises the ideal of the authors accord to their professions.

LIX KINDS OF CUSTOMS DUTIES.

There have been, speaking historically, three main classes of Customs duties: the so called **Transit** Duties ; the Export Duties and the Import Duties. Of these

* J. S. Mill (Bk. V. Chap. 6 Art. 2) would tax only those commodities not produced at home at all But Mills, suggestion was essentially insular and seems to have been based on the special considerations of the English Customs System, where the main items of the Customs Revenue are not ordinarily produceable at home. The suggestion cannot in practice be accepted by other countries which want to tax commodities which they themselves produce in part, or of which they produce marketable substitutes. The school of Free Trade writers seem to exaggerate the danger of evasion ot Customs dues or smuggling if we are to judge from the recent experience of France and Germany, though the experience of England herself in the matter of smuggling seems to warrant their apprehensions.

† It Revenue alone were made the yielding principle of a Customs Tariff, the rates of duty would have to be based on the Railway analogy of charging what the traffic can bear. The duties, then, intially low, would have to be gradually increased, till, they reach a point on each item which is consistent with the highest imports (or exports) under the tax. If the import (or export) rises in spite of the duty the rate should be raised but the increase in the rate may cease if the imports are checked. Such a Tariff-widely distributed would yield enormous Revenue and, might quite possibly realise the ideal of the Single Tax, though at an incommensurate cost to the industrial resources of the country. Conversely protective duties can be made prohibitive of any competition with the protected commodity with a corresponding increase in preventive establishments to detect and deter smugglers. But in that case the cost to the community in the shape of increased prices, restricted consumption, and artificial direction of industry must also be considered.

the first* is now almost entirely discontinued in the leading commercial countries of the world as the exactions of this nature prevent the growth of commerce and the building up of an *Extrepot* trade in a country otherwise suited to such trade. In the crudest form the transit duties are a toll or a tax on the mere movement of goods, without any attempt to see whether the goods taxed are really objects of consumption or simply passing through a country en route to a more distant destination. In such a form it cannot be denied that the Transit duties are an indefensible exaction, hostile to the development of Commerce. In the strict theory of such duties, they would prove in modern states to be impossible to maintain, owing to the mere difficulty of furnishing a suitable administrative organization which would be cheap as well as effective. And the rise in prices resulting from such duties would make them unbearable to the consumer.† In the more modern forms of the *Octroi*, however, in which a town or city government levies a small charge on the articles brought to the city barriers, and meant to be consumed within the city; or under a system of bonded warehouse in which the goods sought to be taxed would, in the first instance, be charged the usual duties and be deposited in warehouses, specially established for the purpose, then, when the goods are re-exported the duty may be refunded—these duties do not arouse hostility they once did provoke. ‡ The duty is very common and less objectionable.

Public opinion also seems unfavourable to the Export Duties. With the disappearance of the old ideal of a self-sufficing unit, it is but natural that anything which impedes the export of the surplus of a country's produce, and thereby prevents it from offering the best exchange for the products that the country in question itself needs, should be regarded with disfavour. Under the influence of Mercantilist ideas European nations have been trying for now nearly three hundred years to increase the exports from each country; and though the inherent weakness of the Mercantile System is now pretty generally realised there is still a strong tendency to favour exports. European writers are, therefore unanimous in condemning the export duties *en masse.* § It is conceivable, however, that not all exports duties would prove equally injurious to the industy of the taxing country. A complete or practical monopoly of a product for which no commercial substitute is found, give an

* It is difficult to say what is the origin of those duties. Do they represent an ill-advised exercise of petty feudal sovereignty or are they to be considered as a just return for services rendered by the state to commerce, such as constructing and maintaining roads and bridges, harbours and docks. If the latter be considered as the true explanation the transit duties cannot be wholly condemned. As a matter of fact, however, in the age of which these duties were collected the alleged services were seldom rendered by the sovereigns; and when such services were rendered, almost invariably an extra special charge was levied for the purpose. The modern unfavourable attitude, therefore, as regards these duties has a good justification in history as well as in economics.

† That such Transit Dues are apt to become unbearable to the consumer is most prominently illustrated by the French Revolution and the causes which led to it.

‡ India has a considerable system of Octoi duties and so have France and Germany. The System of bonded warehouses and their compliment of Drawbacks and Refunds are now to be found in practically in every commercial country in the world. Thus disguised the transit duties still continue, though there is a pretty general condemnation.

§ The only important countries which now levy any Export duty and derive a considerable revenue from it are: Turkey with a uniform Tariff of 1 % on all exported commodities; India with a open export duty on Jute and Rice, and a concealed Export duty on Opium and cotton yarn, the latter being charged under the heading of Excise, the former a transit Duty or monopoly price; Brazil on coffee, Philippines on sugar, Hemp and Tobacco; and Switzerland, Russia, Austria and Italy on some few commodities which are considered monopolies of those countries. During the Boer War England had recourse to the Coal Export Duty, France abolished her Export duties in 1881 and Germany in 1873. India is the only country in which Export Duties form any considerable portion of the Customs Revenue.

rigid demand from all other countries in the world for the article taxed, there is no reason why the burden of the tax should not be borne by the foreign consumers of the commodity.* It is also conceivable that Export duties may serve a very useful national purpose, as for instance in conserving the food supply of a country, like India, liable to famines.† In fine, it would be premature to condemn all Export duties without distinction, without a study of the special circumstances of each case.

However much these older forms of the Customs Revenue may survive there can be no question that at the present time the most important form of Customs Revenue is Import Duty. For political and administrative reasons this form is beginning to be more than ever important. The formation of larger national units by federation or amalgation has invariable resulted in giving increased powers to the General Governments for raising and manipulating the Customs Revenue chiefly in the form of Import Duties. And the consolidation of Frontiers, with the perfection of the means of supervison and the improvements in the Civil Service, has succeeded in removing to a large extent the old objection based on the possibility of evasion and of illicit traffic. The new importance of the Import Duties is enhanced by the novel objects governing the resolution of these duties :—considerations of national interests in Industry.

LX. CONSIDERATIONS IN FIXING IMPORT TARIFFS.

With the possible exception of the United Kingdom and the Turkish Empire, there is none of the principle countries of the world which at the present time regulates its Customs Tariff on Imports or Exports, on an exclusively financial basis. In this respect there seems to be a marked divergenec of views between theoretical publicists and practical politicians. Economic writers are for the most part agreed—even when they belong to countries which have frankly accepted other than merely financial principles in the regulation of their import duties-that on an abstract analysis of International Trade, such duties appear to be a needless hindrance which diminish the net advantage of International Trade. The imposition of high Import Duties would no doubt check the Import Trade, even when the first obvious effect of such duties seems to be merely a diversion of the Import Trade from manufacture to raw-materials. For in so far as the taxed article is raised in price, there would result some retrenchment in consumption which would involve restriction of trade.

The case, however, for high Import Duties imposed with a view to grant some protection to the local industries does not deny these obvious inferences from abstract reasoning. The distribution of industries in the world as we know it is

* Jute, and to some extent opium, from India and Camphor from Japan supply admirable examples.

† Following the Paris Conference of 1915 suggestions were made for the conservation of the Raw Materials among the allies. One of the suggestions (offered for the consideration of the Indian Government as regards the supply of raw-cotton) took the shape of an export duty as an alternative to a system of Licenses. No decision has been taken, but the Indian opinion seems to have been almost wholly against the export duties and rightly so, though they were naturally preferred to a much more injurious system of licenses.

not based on that ideal assumed by the Free Trade economist, which, if true, would lead to the great world advantage from the growth of foreign trade as resulting naturally from the differences in comparative cost. There could be no occasion for any demand for an artificial stimulus to a country's industry if the principle of nationality were made extinct; if the regional distribution of population so completely harmonised with their ethnic qualities, as to make the labour of each regional unit employed at the greatest efficiency in the industries climatically or geographically most suited to such a unit. Given, however, the force of nationality and the virtue of patriotism; given the imperfections or inequalities in industrial development of different units; it is not surprising to find many deep thinkers deliberately ignoring or contravening the inferential disadvantages of a system of artificial stimulus to national industries by means of import duties. It is possible to argue in many a country that an industry, in all ways suited to the natural advantages of that country, may yet be prevented from developing in that country for want of the necessary knowledge and experience among the people. Such a defect would never be remedied under a system of free competition from other countries who have managed, purely by historical accidents, to develop the same industry to a much higher stage of perfection In such a case Protective Import Duties, by making competition with the protected industry harder, afford an opportunity to foster such industry. Such a process of national industrial development no doubt occasions a temporary loss in the shape of increased prices, as also in the inevitable alterations in the employment of industrial capital and labour. But granting the fact of that loss it may yet be claimed that the compensation from an all round development of the country's industry would more than set off the loss.

This case for a scientific protection has now become classic. The inherent limitations of such a case it would be futile to ignore. (1) It is in the best sense only a **temporary** expedient, since the underlying assumption of such a case is that the industry protected is capable of developing, if only in its initial stage it is guarded against unfair competition. The necessary corrollary of this assumption requires that when the protected industry has reached a stage when it no longer needs artificial stimuli the aid once given to it must be taken away. The sacrifice involved in every system of protection would have been thrown away if after the experimental stage the protected industry still continues to demand protection. One of the most difficult problems which the protectionist has to face in practical life is to make a wise selection of the industries sought to be protected. The limitation of our information as to the suitability or possibility of a given industry, the existence of other than purely economic factors warping the judgment of the protectionist and influencing his policy, make it very hard to select wisely and to protect properly the suitable industries. Moreover the essentially temporary character of scientific or justifiable protection demands a removal of the duties when their object has been served. But in practice almost all the chief Protectionist countries have found this an imposible condition owing to the growth of vested

interests.* (2) Scientific protection must also involve some loss or sacrifice. The nation desiring protection must make up its mind to bear this loss and treat it as an unavoidable or necessary expense for educating its people to the desired pitch of manufacturing skill. Such a view of the sacrifice involved would pass unchallenged if both the loss and the gain were truly national and evenly distributed. But in practice it not unfrequently happens that the loss is borne by one section—the consumers only; and the gain goes almost wholly to the much smaller section of the producers. The specious argument that protection creates more profitable employment may be adequate to entrap the ordinary workmen, who see the immediate rise in wages, and have not foresight enough to consider the counter-balancing effects of a rise in the cost of living which results from the same cause. At first sight, it would appear as though successful protection, by establishing new industries, helps to create additional employment; but such a belief is impossible if it means that the total volume of employment in the country is increased. What successful protection can really accomplish is a change in the nature of employment from poor to more paying channels; it cannot add to the total volume of employment.† The working classes as a rule do not realise this and they are, therefore, instructively protectionist.‡ The same also applies to the other argument of the protectionists in answering the charge of costliness or wastefulness of their programme. It is possible to make the foreigner bear the cost of protectionist duties. It is conceivable, no doubt, that a buyer or importing country in a situation of exceptional strength—having practically a buyer's monopoly of demand—may be able to ward off that burden of the import duties.§ But in that case, to the extend that the burden of import duties falls upon a foreigner, the duties would fail in their original object ¶ would fail to be protective; for the only way in which the burden can be

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* The experience of the United States of America and the German Empire is more interesting in these respects, as both these countries, working on entirely independent grounds, have evolved practically identical conditions of industrial organisation, which simultaneously proves the accuracy of the arguments for scientific protection and the practical difficulties involved. Prof. Adams in his work on "Finance" thus sums up the contrast between the theory and practice of protection. (Page 417). "In theory protection does not become a source of positive advantage until it gives place to freedom of commerce. In fact, after a nation has once tasted the stimulus of protection; commercial freedom is either impossible of attainment, or can be attained only through a struggle so great as to mark an epoch in financial legislation. In theory protective duties should be high when first imposed and decline as nations learn the lesson of manufacturing skill. In fact, they begin with a moderate charge and raise it higher and higher each succeeding year. In theory the burden of protection, that is to say, the cost of the nation's industrial education, is borne by the agricultural industry,......In practice especially where Government rests upon popular, favour,......the policy of protection quickly drifts into the illogical and self-destructive policy of an all round protection."

† The American Protectionists have often argued as though in their case the Protective Tariff had actually succeeded in adding to the volume of employment. The increase of population simultaneously with a rise in wages in the States is an evidence of the yet inadequately exploited resources of the country, and not of the ability of protective tariffs to create something out of nothing. The high wages may also be explained on the ground of increased efficiency in so far as the high wages are not explained by increased cost of living.

‡ The only exception to this rule is that of the English working classes, the majority of which have been free traders. But the explanation of this exception is probably to be found in English Workmen thinking more of their lot as consumers than as producers, in which capacity for a long time they feared no rivals.

§ Professor Plehn mentions the following five instructive cases in which the burden of important duties might be borne by the foreign producer: A. when the amount of the commodity produced in the country laying the tax is sufficient in quantity to entirely supply the home market, and to fix the price very close to the cost of production, while the foreigner has at the same time so large a supply that he must enter that market to dispose of it. A common instance of this is the case of Rye in Germany in good years. (B) when a new tax is laid on goods produced with the aid of large fixed plant for a limited market which would be lost if the price is raised. As long as the producer is unable to change the character of the plant he must pay that tax for example, Iron products from the Rhine to be sold to Sheffield. (C) In the case of commodities which are used only as substitutes for something else, because they are cheaper which would not if the prices are higher than that of the commodity for which they are used, be consumed at all, e. g. Rye in Germany when wheat is cheap. (D) in the case of commodities a large part of whose total consumption is produced in the country but not enough to fix the price absolutely, which is still above the cost of production. The foreigner in that case would pay part of the tax if his entry depresses the price. (E) The speculator regularly pays the tax when the commodity is massed in warehouses on the border for importation on a rise of prices, and on being imported in large masses depresses the price.

¶ Cannot add many specific instances of a buyer's monopoly unless it were the case of tea in England where the tax is not conceived in a spirit of protection. For the above cases compare Plehn (Introduction to Public Finance) pp. 225-7.

borne by the foreigner is a fall in price. And if a fall in price does not arrest the imports the tax on imports cannot be said to be protective. (3) The greatest danger to the industry of a country from a systematic adoption of scientific protection, however, is the likelihood of a permanent weakening of industrial position in the protected country. Tariff aid, instead of being a temporary and costly expedient, becomes in many cases the normal condition of the industry of that land, thereby undermining and enervating the whole position of Industry. The enervating force is all the more apparent in a small country, where domestic competition is not sufficiently strong to prove the necessary stimulus which automatically compels an industry to keep abreast of the times.

If these necessary limitations of scientific protection are reorganised and appreciated there is no reason why a country, ambitious of industrial development —should not resort to it. Recent experience of great industrial countries have shown that import duties are by no means the only means of protecting one's country's industries. If the cost involved in the protectionist experiment is accepted as an unavoidable price of national development the protection required may perhaps be more appropriately given in the shape of Export Bounties or direct Subsidies to selected industries than in the shape of import duties. The two last mentioned methods have a distinct advantage over the more common expedient of import duties. They make palpably evident the essentially costly nature of the protectionist experiment, by making the subsidies and bounties a direct charge on the national revenue, instead of an apparent gain which the import duties suggest. The consciousness of the burden will provide its own remedy. Besides, as the bounties are given only to selected industries, admittedly of national importance, they would prevent the creation of any vested interests which Import Duties bring about. To the extent that bounties are needed by an industry they would mean a gift to the foreigner, for without the bounty there would be no exports *ex hypothesi*. If the belief in the future of the bounty-fed industry is well-founded, the bounties ought to be progressively reduced; and thus remove an unfair advantage given to one section of the people Even in the case of Import Duties, the problem of granting protection with the least risk of waste of national resources often requires a most minute adjustment of the scale of duties to the cost of production, to the various classes of the same articles, to the most delicate distinction between the rival claims of specific or *ad valorem* duties.

But the problem of defining the objects of a country's Customs Tariff is not over. We have yet to examine the more radical question of Customs Policy, to reconcile the claims of nationality, with those of world commerce; to show, if possible, that the gain of the producer need not necessarily spell the loss of the consumer. The rapid conversion of a number of the leading countries in the closing decades of the last century to a policy of protection, in spite of the limitations of such a policy, was as much the result of political as of economic considerations. A general adoption of protection indiscriminately

must, apart altogether from an unhealthy attitude engendering of universal suspicion and unprofitable retaliation, result in a waste of the world's resources, owing to a misdirection of capital and labour due to the desire of a forced industrial development. The rise in prices, which must also follow in the wake of such a course cannot but exhibit the resulting hostility between the interests of producers and consumers. If it is sought to avoid this last consequence by attempting to regulate the industry protected and fix the price, the State would soon find an effectual limit to its exertions. Without any ability to offer an alternative supply such an effort must fail.* The only remedy to bring about the fullest development of each country's resources without injuring the interests of consumers or causing a wanton retaliation is, in our opinion, for the state to take upon itself the task of production, or at least its regu lation. If the units of the league of Nations become competitive producers the classic principle of the comparative costs would automatically asert itself—as in that case the confidence of equality would help to banish all suspicion of ulterior designs. International commerce would then follow the natural line of a territorial division of labour, the exchange between the trading nations being effected on the collectivist basis, and governed by treaties taking the place of innumerable individual contracts. The element of any undue or unearned profit in international exchange would disappear, almost in the same way that the element of such profit has been eliminated in the exchange between the Cooperative Wholesale Societies trading with one another though situated in different lands. The control collectively of national production would also render the task of regulating the price according to the cost of production more easy, thus avoiding the present divergence of interest between consumers and producers. Recent events in many countries seem to show that such consummation is by no means unlikely. In any case unless some such arrangement is arrived at mistaken protection in national interests would be unavoidable from ambitious nations, bringing in its train all the undesirable consequences of distrust, retaliation, and waste to which we have already referred.

LXI. A BRIEF HISTORY OF THE INDIAN CUSTOMS REVENUE.

At the time of the Mutiny the Customs' Policy of the Company's Government laid the entire trade of India in either direction under contribution. Without going into needless details it may be said that all the principal articles of Import and Export were taxed :—The former at the general rate of 5% **ad valorem.** Mr. Wilson in his first Budget proposed to raise the general Import Tariff to 10% (1859-60) subject to the exceptiion in the case of some important articles which were to be taxed at 20%.† This Tariff was revised in 1864 when the general duty

* The emanance of profiteering even in the apparently controlled industries during war time is an instance of the utility of such control.

† The chief articles excepted from the general 10 % rule, and made liable to Import Duty of 20 % were : Tobacco, Beer, Wines, and Spirits—Wilson thus sums up the effect of these proposals.

		£.
Loss on 20 % duties	.. ..	30,000
Loss of articles freed	.. ..	52,000
	Total .. £	82,000

The first free list included wool, hemp, hides, jute, flax, tea, books, prints, maps, and works of art

was reduced to 7½% *ad valorem*, and again in 1867 when the list of articles admitted free of duty was enlarged. Meanwhile a Committee had been appointed to discuss the whole question of the Tariff policy. And, following their recommendations the whole tariff was recast in 1875, reducing the general rate of Import duty to 5% and effecting a much needed revision in values for the purpose of adjusting the tax. *

From 1875 to 1900 the Indian Customs Policy became the subject of a violent controversy between doctrinaire free traders and passionate protectionists; and in consequence there were frequest changes. The ruling caste, taking their cue from the prominent statesmen from Great Britian, adopted an attitude of uncompromising freedom in trade, irrespective of India's economic or financial interests. While the Indian public opinion of the day, such as it was, was gradually driven by the sheer intolerance of the Rulers in their second hand exposition of the free trade principles—to an attitude of equally unyielding protectionism. † Suspicious of selfish interests of the English electorate—chiefly of the Lancashire vote which no English Government could afford to defy and yet survive in office—were freely alleged to be more effective in shaping the Indian Tariff policy than any real belief in the sacrosant principles of free trade. Be that as it may, the Government of India embarked, from 1878, upon a policy of the remission or reduction of the Customs duties with a view to establish an ideal freedom of trade; and though the heavy fall in the value of the rupee and the sharp increase in expenditure did not permit them to realise completely their ideal, they approached by 1897 as near it as they dared, in the then condition of the country's finances, despite the protests of the Indian leaders. The first step in the new direction was taken in 1875, which was to impose a duty on cotton containing yarn not finer than 30" if similar

* The following Table shows the list of articles taxed and the rate of duties in 1875.

	Import duties.	
1.	Apparel, Arms, candles, carriages, clocks, cotton, cabinet, ware etc.,	7½ %
2.	Cotton twist	3½ %
3.	Piece goods	5 %
4.	Medicines	7½ %
5.	Coloured materials	7½ %
6.	Fruits, glass, skins, jewels, ivory, leather,	7½ %
7.	Beer specific duty per gallon.	1½ %
8.	Spirits do. do.	6/s
9.	Wine do. do.	3/s
10	Iron	1 %
11.	Other materials	7½ %
12.	Naval stores, oils, paints, perfumes, porcelain, provisions and oilmanstores	7½ %
13.	Silk	7½ %
14.	Sugar	7½ %
15.	Tobacco	10 %
16.	Woollen piece goods	5 %
	Export Duties.	
1.	Cotton goods, oils, seeds and apices and hides	3 %
2.	Shallac and lac dye	4 %
3.	Grain specific duty per maund	4½ %per md.
4.	Indigo do. do.	6/s ½

See R. C. Dutt's "India in the Victorian age" p. 338.

† For a clear exposition of the Customs Policy of the Government of India see Strachey's "Finances and Public Works in India" Chapter XV, and the Budget speeches of Lord Lytton and Sir J. Strachey in 1878 and 1879. The extract from Lord Salisbury's despatch given in an Appendix to Strachey's op. cit. p. 297 **et seq.** are as interesting as the following resolution of the House of Commons as indicating the English view of the question:—

"That, in the opinion of this House the duties now levied upon Cotton manufactures imported into India being protective in their nature, are contrary to sound commercial policy, and ought to be repealed without delay so soon as the financial condition of India will permit." (July 11, 1877). The general principles governing the Customs policy were thus enunciated by Strachey: (1) No duty should exist which affords protection to Native Industry; no duty should be applied to any article which can be produced at home without an equivalent duty of Excise on the home production; no duty should be levied except for purely fiscal purposes. (2) As far as possible raw-materials of industry and articles contributing to production should be exempt from Customs taxation. (3) Duties should be only applied to articles which yield a revenue of sufficient importance to justify such an interference with trade. (4) Export duties should be levied only on those articles of which the exporting country has a monopoly of production.

in character to goods already produced at home. At the same time Railway material was exempted from import duty and 26 other minor articles were placed on the free list. As there was very little difference between the cotton goods which were exempted and those which were still liable to be taxed, in 1879 all cotton goods containing yarn not finer than 30's were exempted from duty at a sacrifice of 20 lakhs. But the cotton goods were the principle source of customs duties;* and if they were to be exempted there was no sense in maintaining other import duties which were likely to be more vexatious than profitable. The prosperous condition of the finances enabled the Government of Lord Ripon to abolish, in 1882, the remaining cotton duties and the rest of the general import tariff † With the exception of a duty of half anna per gallon on petroleum, no other import duties were imposed between 1882-1894.

Ever since the sixties owing to the impetus given by the American Civil War India had witnessed a continued growth of cotton industry organised on the latest mechanical improvements basis; and by the eighties the Indian Mills had begun to meet the local demands to a quite appreciable degree. But the industry was seriously handicapped in the early years by the competition of the Lancashire Mills which had attained a far higher stage of development The advantage of Indian Mills in commanding cheap labour was more than off-set by the inefficiency of that labour; while the advantage of English Mills in having command of much superior raw material in America had no counter-part in India. The small duty of 5 % which the cotton manufactures of England paid into India could not possibly have any protective effect on the Indian Industry. Nevertheless the strong Lancashire vote exerted a continued pressure on the English cabinet to force the Indian Government to remove the Indian duties; and, in spite of great famines, wars, and falling rupee, the government of India had at last to obey. But the success of the Lancashire agitation naturally aroused suspicion in the Indian mind as to whether the anxiety on the part of the English agitators for a removal of the import duties in India was really the outcome of a genuine belief in the advantages of free trade; or whether by any chance it was the result of any selfish apprehensions of a rival industry. We find, therefore, the greatest struggle in the Tariff history of India centring round the cotton duties. In 1894-5 the heavy fall in the exchange value of the rupee brought the Government face to face with a deficit of Rs.168 lakhs, the only way to adjust which was the restoration of a general 5 % import tariff, the duty on petroleum was at the same time doubled

* Sir J. Strachey, in the Financial Statement for 1878-9 said the total gross customs revenue amounted in 1876-7 to £4,170,947 or net £4,098,296. Of this amount salt import duty accounted for £ 2,491,010, leaving £ 1,607,286 for customs proper. Out of these cotton duties amounted to £ 811,340 or more than 50 % of the whole customs revenue a serious item to sacrifice in the face of the known difficulties of those years.

† The remission in 1882-3 was perhaps less open to criticism even on financial grounds than the similar action of 1878 and 1879. In the earlier years war and famine had combined to make additional taxation inevitable: The remission of any existing item—particularly the productive item of cotton duties—was objectionable as much on financial as on fiscal or economic grounds. In the later year, there was prosperity inside; revenue and expenditure, after balancing, had left a surplus. Salt duties were reduced. The decision of the Government did not, therefore, seem so flagrantly in opposition to Indian interests as the earlier decision had been.

In this connection it would be interesting to observe that Indians are not alone in regarding the Indian Tariff changes as being dictated by selfish English interests. Lord Northbrook resigned his Viceroyalty rather than submit to this unfair pressure. Lord Lytton carried the changes by the exercise of the extraordinary power of overruling the majority of his council. The minutes of dissent were extremely sound.

See Strachey op. Cit. p. 247.

But, submissive to English pressure the Indian Government excluded the cotton goods and fabrics from the import tariff, so that the net gain from these changes was Rs. 120 lakhs, leaving still a deficit of nearly 50 lakhs; which rose to a crore by December 1894. Cotton goods could now no longer be excluded, as they were the principal source of the customs revenue; but, lest the imposition of the small 5% duty should give any the slightest protection to the Indian industry, a Countervailing Excise Duty at the same rate (5 %) was imposed on all cotton yarns of 20's produced in British India in Mills, the small production of the hand-loom industry being excluded. But still the English Mill industry was not statisfied as some English exporters were for lower counts, as the English goods paid duty on the completed value while the Indian Mills paid only on the yarn value. Hence, in February 1896, cotton twist and yarns of all kinds were exempted from import duty and a uniform duty of $3\frac{1}{2}$ % was imposed on the woven goods of all counts, whether imported or manufactured in Indian mills. These changes were naturally construed by the Indians as extremely prejudicial to the local industry and they have left imperishable memories of a bitter wrong. * The cotton duties thus fixed remained unchanged till 1917, when the cotton imports were made liable to the new general tariff of $7\frac{1}{2}$ % while the question of Excise was left as before. †

The only other interesting item in the Tariff History of India is the countervailing Duty on the bounty-fed sugar. Imposed for the first time in March 1899, it was meant to check the imports from countries which were giving artificial encouragement to the sugar industry. The imports were in the next two years not much affected though the revenue in 1900-02 was 7 lakhs; and so the rate was raised in 1902 03 to prevent the artificial underselling of beet sugar, by combinations. But following the sugar convention of 1903, the duty was reduced. The tariff changes made in 1916 have made sugar taxable at 10 %.

The only important Export Duty, before 1916, was that on rice at the rate of 3 as. per 82 lbs. During the War additional Export Duties have been imposed on jute, tea‡ and indigo, the earlier tea duty of 1903, being a special collection exclusively reserved for the benefit of the tea-trade. In 1910 the imports of silver coin and bullion were taxed at 10 %.

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* The customs revenue from cotton goods was Rs. 116 lakhs, in 1895-96, and averaged 87 lakhs in the next five years. The excise duty on cotton was 6 lakhs in 1805-6 and rose to 18 lakhs in 1902-03.

† In the first tariff changes made during the war cotton manufactures were left untouched (1916) For this reason "The council will naturally ask why, at a time when fiscal necessity compel us to make a material enhancement of the tariff in nearly every other direction, we should leave cotton alone. Well, the Government of India have not failed to represent their view that there should be a material increase in the cotton import duties while the cotton Excise, which has formed the subject of such widespread criticism in this country, should be left unenhanced subject to the possibility of being altogether abolished when financial circumstances are more favourable. But His Majesty's Government, who have to consider the position form a wider stand point felt that the raising of this question at the present time would be most unfortunate.... His Majesty's Government feel that the fiscal relationship of all parts of the Empire as between one another and the rest of the world must be reconsidered after the war and they desire to leave the question reaised by the cotton duties to be considered then in connection with the general fiscal policy which may be thougt best for the Empire." (Para 46).

‡ There were the old sugar duties most obnoxious from financial as well as from economic stand-points which were abolished in 1878-9. The countervailing duties were in addition to the general five per cent duty, and that remained after the countervailing duties were abolished.

LXII. The Present Position of the Indian Customs Revenue.

The following table gives the main items of imports and exports and the rates at which they are taxed, as fixed by the Tariff Law of 1916.

I. Articles of Import	Rate ad
Fish, salted, wet or dry	valorem $7\frac{1}{2}$ %
Fishmaws, fruits of all sorts, ...	,,
Vegetables, nuts, flour	,,
Spirit, not meant for drink, ...	,,
Provision and Oilman's store	,,
Spices, Tea, Coffee, Salt, gums..	,,
Resins, lac, mettalic ores	,,
Petroleum. other oils whether animal or vegetable, seeds ..	,,
Tallow and wax, silk waste	,,
And raw Silk, Wood and timber	,,
Unmanufactured Ivory	,,
Shells, Precious stones, Pearls	,,
Other raw materials. Apparel	,,
Explosives, carriages and carts, chemicals, drugs and medicines not specifically exempted, agricultural implements specified, clocks and watches, dairy appliances, electroplated ware, hardware, other instruments, dyes and dyestuffs, furniture, glassware, hides and skins, and leather, earthenware, machinery worked by manual or animal labour metals other than iron and steel, yarns and textile fabrics, works of art unless intended as public memorials, brushes and brooms, building and engineering materials, candles, cordage, manufactured ivory, furniture, fire works, jewellery, matches, mats, perfumery, packing pitch and tar, prints, Rubber Tyres and other goods, soap and toilet requisites starch, toys, umbrellas, fodder &c.	,,

II. The following articles are taxed at $2\frac{1}{2}$ % ad valorem: Grain and Pulse Vinegar, Iron or steel, Fire wood, Copper Telegraphic instruments and Apparatus, Machinery and Component parts thereof, articles of Iron and Steel *e. g.* Bars rods, rails &c. Lead sheets for Tea chests, Railway material for permanent way and rolling stock, Ships and Steamers, Tea-chests.

III. The following articles pay 10% ad valorem; sugar of all sorts, molasses Sacharine, Silver plate, Silver wire and other Silver manufactures.

IV. The following pay 20% ad valorem or specific duty, which ever is higher: Arms, amunition and Military stores subject to certain exemptions the specific duty varies from Rs. 2-8-0 to Rs. 50. Exemptions are given for arms forming spart of a military equipment.

Cigars are charged 50 %, ad valorem.

VI. The following pay specific duty:

Beer, Porter, Cider, liquors, cordials, perfumed spirits, wines, tobacco, coal and coke, petroleum, opium silver, silver bullion, coin.

VII. The following are admitted free.

Salt for industries, hops, raw hides, and skins, oil-seeds, raw cotton and wool, manures. uniforms and accoutrments, Anti-Plague serum, water-lifts, sugar mills and oil presses, cotton weaving and spinning machinery, gold coin and bullion, current silver and nickel coins, trade catalogues, cotton twists and yarn, and cotton sewing, darning thread, second-hand gunny bags, Statuary for public purposes, Books, and prints Living animals, dyes and Dye-stuffs imported for his own purposes by a cotton mill owner specimens of natural science etc.

On Exports.

	Rs.		
Raw* Jute Cuttings pay, per bale of 400 lbs.	1	4	0
Raw Jute : Other goods per bale of 400 lbs.	4	8	0
JUTE MANUFACTURES :			
Sacking goods per bale of 400 lbs.	20	0	0
Hessians pay per bale of 400 lbs.	32	0	0
Rice:, pays per bale of Indian Md.	0	3	0
Tea,† pays per bale of 100 lbs.	1	8	0

The import schedule is divided into 136 heads excluding subheads, with a considerable minuteness in detail description. In many cases the *Ad Velorem* Duty is charged on a prescribed valuation for Tariff purposes, which may work out at a very low percentage in rising prices; in a few others the duty is charged according to shipping documents. The Export duties are all specific, which are easier to collect and being low are not very burdensome.

* The Export duty on Jute and Tea, first levied in 1916, was doubled in 1917. The rates given above are under the Tariff Act of 1917.

† At the present time the Indian Customs Duties are composed of the Export and Import Duties levied by sea land and together with the Excise duty on cotton manufactures of India, and the same on the Motor spirit which are under the head of Customs, as also the wharfage and warehouse charges. The figures below represent the actuals in each year except in 1918-19 and 1919-20 the former being revised Estimates and the latter being Budget Estimates In each case the amount has been exceeded. Charges under the Customs department were analysed in 1914-15 accounts as below:—

1.	Charges at the principal ports	Rs. 32,45,477
2.	,, ,, other ports	7,03,343
3.	Share of Customs transferred from	..
4.	Charges in England	£ 624
	Total	£ 264,279

This, however, does not give all the charges by deducting which we can arrive at the net total Customs Revenue. The marginal table shows the Refunds and Drawbacks under Customs, which must also be added to the Customs charges. The establishment charges also take no account of the non-effective charges which must be debited to that department. As shown in our accounts the charges amount to 5 % in 1900-01 to 13.27 % in 1910-11 to 4 % in 1914-15 and to about 2. 25 % in the latest estimate.

	£.
1907-08	94,468
1908-09	93,220
1909-10	94,172
1910-11	107,782
1911-12	159,295
1912-13	130,935
1913-14	133,002
1914-15	174,112

Table showing the growth of Customs Revenue in India :

Year.	Gross Customs Revenue.	Expenditure	Year.	Gross Customs Revenue.	Expenditure
	£	£		£	£
1860-61	2,965,608	162,833	1890-91	1,743,218	134,652
1861-62	2,878,139	243,547	1891-92	1,701,288	136,363
1862-63	1,464,366	178,706	1892-93	1,617,633	140,634
1863-64	2,384,061	177,491	1893-94	1,682,373	143,736
1864-65	2,296,929	207,064	1894-95	3,854,955	174,547
1865-66	2,279,687	207,514	1895-96	5,017,278	202,948
1866-67	2,030,864	188,810	1896-97	4,491,477	203,386
1867-68	2,578,632	207,186	1897-98	4,641,295	211,379
1868-69	2,692,755	175,880	1898-99	3,201,441	143,295
1869-70	2,429,185	181,456	1899-00	3,133,491	153,953
1870-71	2,610,789	186,991	1900-01	3,371,594	161,930
1871-72	2,575,990	184,921	1901-02	3,833,019	161,475
1872-73	2,653,890	180,375	1902-03	3,997,636	161,336
1873-74	2,628,495	183,863	1903-04	3,966,298	168,298
1874-75	2,678,479	184,172	1904-05	4,361,771	179,245
1875-76	2,722,533	186,757	1905-06	4,348,017	182,459
1876-77	2,483,345	194,230	1906-07	4,351,692	200,484
1877-78	2,622,296	202,815	1907-08	5,004,494	206,478
1878-79	2,326,561	200,417	1908-09	4,832,264	209,023
1879-80	2,280,793	201,280	1909-10	4,965,118	217,495
1881-82	2,539,612	198,927	1910-11	6,619,009	239,566
1882-83	2,361,388	195,113	1911-12	6,468,567	250,713
1883-84	1,296,119	154,982	1912-13	7,197,243	257,288
1883-84	1,187,266	139,345	1913-14	7,758,220	281,252
1884-85	1,029,943	136,860	1914-15	6,347,201	264,279
1885-86	1,199,976	130,719	1915-16	5,873,886	262,264
1886-87	1,246,293	135,818	1916-17	8,659,182	271,184
1887-88	1,348,837	134,891	1917-18	1,036,588	285,276
1888-89	1,332,780	133,897	1918-19	12,403,200	307,300
1889-90	1,306,686	136,021	1919-20	13,352,400	314,100

The table in the margin gives a detailed analysis of the total Customs Revenue of the Government of India.

Article & Duty.	1918-19 Accounts Rs.	1920-21 Budget. Rs.
Imports.		
Special ammunition Duty		
1. Arms & Mil stores	5,00,205	11,14,000
2. Coal coke and patent fuel ..	35,433	34,000
3. Liquors	1,10,65,350	1,50,65,000
4. Opium	3,367	6,000
5. Petroleum	13,13,393	85,00,000
6. Silver bullion & coin	1,139	....
7. Silver ware	2,03,248	2,00,000
8. Sugar	69,63,412	1,35,00,000
9. Tobacco	83,02,124	90,00,000
10 Articles of food and drink (excluding sugar and vineger)	57,30,636	75,00,000
11. Raw materials	41,01,145	57,82,000
12. Manufactures		
(a) Cutlery & hardware	48,80,774	62,65,000
(b) Metals other than iron & steel	23,29,577	70,00,000
(c) Cotton manufacture	3,78,73,533	4,50,00,000
(d) Yarn and Textiles	58,29,934	83,00,000
(e) Other manufactures	1,85,49,095	2,35,00,000
13. Miscellaneous Duty at $2\frac{1}{2}\%$ ..	34,34,382	35,00,000
14. Machinery..	11,61,717	30,00,000
15. Metals iron & steel	26,00,012	52,10,000
16. Railway stock	4,60,210	18,52,000
17. Other articles		
(a) Hides and skins	....	2,10,00,000
(b) Jute	2,14,15,946	3,40,00,000
(c) Rice	1,11,13,234	75,49,000
(d) Tea	43,85,798	35,00,000
18. Exports duty	3,86,560	4,00,000
19. Sea Customs Miscellaneous ..	8,36,395	9,00,000
20. Land Customs	6,94,711	6,50,000
21. Cotton Excise	1,38,17,033	1,50,30,000
22. Motor Spirit Excise	32,73,693	39,51,000
23. Warehouse Rent	5,67,628	10,00,000
Total ..	18,181,09,615	25,51,45,000

Owing to the brisk Import Trade in 1920 due to forced Exchange conditions the realised Customs Revenue for the first 9 months of the fiscal year amounted to Rs. 25 crores.

LXIII. CRITIQUE OF INDIAN TARIFF POLICY.

After the brief sketch of the evolution and present condition of the Indian Tariff Policy, we shall now proceed to discuss the basis of that policy. For a proper understanding of our criticism, the following table is very instructive. It gives the principal imports into the Indian market in three columns, being the quinquennial averages of the pre-war and the war period, and the last year of the war 1918-19, together with the amount of revenue drawn from these sources for 1913-14 and 1918-19. The comparison is *not* quite free from objection in every respect, as the rise of prices materially affects the figures on the Import side, while the changes in the tariffs made in 1916 and 1917 affect the revenue figures. Allowing, however, for these factors the figures are still instructive.

Articles Imports.	Pre-War Average 1909-13-14. Rs.	War Average 1914-19 Rs.	The last war year 1918-19 Rs.	Revenue 1913-14 Rs.	Revenue* 1918-19 Rs.
Cotton goods ..	48,40,85,000	47,43,31,000	51,68,85,000	2,12,94,239	3,85,00,000
,,Yarn ..	3,77,18,000	4,94,79,000	8.86,68,000	for all manu	1,76,50,000
Sugar ..	13,17,58,000	14,17,48,000	15,61,36,000	factures Rs.	1,76,50,000
Iron and steel	11,17,4[illegible].000	9,61.00,000	12,44,99,000		26.50,000
Railway Plant and Stock ..	6,10,94,000	3,48,19,000	1,04,35,000	1,53,40,176	5,00,000
Machinery & Building ..	5,80,04,000	5,76,52.000	5,85,94,000		1,20,00,000
Silk ..	3,94,54,000	3,93.14,000	4,74,94,000	13,77.4	
Chemicals Drugs &c.	2,12,73,000	3,42,25,000	4,21,96,000	18,41,175	
Mineral oil ..	3,72,03,000	4,02,30,000	3,51,32,000	72,48,941	12,000
Liquors ..	2,02,46,000	2,36,64,000	3,30,21,000	1,23,68,484	11,250
Hardwares ..	3,17,04,000	2,79,47,000	3,22,83,000	metals	Manufacture
Paper & Paste Board ..	1,27,07,000	1,96,48,000	2,72,07,000	73,29,237, silver	1,91,00,000
Salt	79.16,000	1,81,66,000	2,33,10,000	99,24,993	
Provisions ..	2,05,10,000	2,14,82,000	1,93,81,000	Tobacco	Tobacco
Motor Cars & Cycles ..	1,00,64,000	1,11,45,000	38,89,000	29,29,526	81,75,000
Total			....	9,36.01,836	12,74,73,000

* The total revenue shown above does not quite make up the total gross receipts of the Customs Department. A portion of Salt Revenue consists of Import Duty and so, too, a portion of the opium revenue which is collected in the shape of the transit duties. The following table shows the addition which must be made to get the total revenue from Customs. These make no difference in the aspect of total revenue given else when but they affect the ostensible total from the Customs Department.

Year.	Opium pass fees. Rs.	Salt Import duty. Rs.
1907-08	93,07,200	1,40,16,566
1908-09	2,09,81,700	1,44,88,770
1909-10	1,08,62,100	1'47,80.837
1910-11	1,30,800	1,34,45,954
1911-12	1,03,99,105	1,46,22,854
1912-13	2,20,99.645	1,37,27,660
1913-14	4,12,500	1,49,85,311
1914 15	......	1,61,02,716
1915-16	......	1,44,32,007
1916-17	......	1,61,06,644
1917-18	......	1,38,67,067
1918 19	......	1,37,00,000
1919-20	......	1,76,00,000

From the foregoing tables it would be clear that, with the possible exceptions of sugar in recent years, the Indian Tariff is mainly a revenue tariff. Import duties are levied chiefly on those articles which are either not produced at home in India, or which, being produced at home on the same lines as those imported from abroad, are taxed by means of a countervailing excise duty.

Export duties are levied either because India has practically a producer's mono poly of the taxed article (Jute), or because, though possessing no monopoly the demand for the article is so great as to make the tax fall partly on foreign customers. Raw materials for industry, and the necessary mechanical aids and equipments are either admitted free or taxed very lightly. In such a system it would be impossible to look for any but the financial motives in the tax adjustment, the various classification and definitions in the tariff schedules being only for purposes of administrative convenience. Speaking generally, we may say that under the latest estimates, the manufactured articles pay 56% of the total Import Duties while non-manufactures pay 44%. It must be admitted that judging from the trade figures this general policy, now prevailing for half a century roughly, has not proved so injurious to India as was once apprehended. There were, no doubt, strong and valid objections to the changes in the Tariff when they were introduced. The Indian Financial system was far too much strained by the Famines and the Afghan War in 1878 to justify the Government in relinquishing an important source of Revenue such as that contributed by the Import duties on Cotton. Besides, the allegation of the protective character of the Indian Cotton Duties was without foundation, as the Indian Mills of that time were producing goods of much lower quality, while the Lancashire Mills were specialising in much higher counts. There could be no protection where there was no competition. Leaving aside altogether the constitutional objection to such changes being carried out by the Viceroy by the exercise of his extraordinary power of veto, as also the more remote question of the relative position of the Viceroy and the Secretary of State, we may admit that the first general remission was open to grave objections on purely economic grounds. In 1894 the objections were even more severe. The financial strain and uncertainties were greater than in 1878-9. The Indian Mills were particularly handicapped by the closure of the Indian Mints and the consequent artificial rise in exchange. The pressure from Lancashire was, if anything, more openly selfish. The imposition of the Excise duty to counteract the low Import Duties on cotton manufacture was more the outcome of a great jealousy than a vindication of the Free Trade Principles. But all these objections were essentially of a temporary character. They were no doubt fatal to the particular case against which they were urged. But they did not affect the main question at issue between Free Trade and Protection. The Fact that the industry around which *there was the greatest controversy has, notwithstanding this handicap from a* protectionist stand point, made during the period a continuous progress supports the contention of those who believed that the conditions of Free competition are

the healthiest for Industrial growth * We have reason to believe that an industry which withstood such competition must really be good and suitable. The Indian cotton Mills are now producing superior cotton goods, which formerly they did not, even in spite of free competition with the English goods.

The following figures show the growth of the cotton mill industry in India:—

The Textile Industry.

Year Ending 30th June.	No. of Mills.	No. of spindles	No. of Looms.	Average No. of hands employed daily.	Approximate quantity Cwts.	Approximate quantity Bales of 392 Lbs.
1898	185	40,259,720	38,013	148,964	5,184,648	1,481,328
1899	188	4,728,333	39,069	162,108	5,863,165	1,675,190
1900	193	4,945,783	40,124	161,189	5,086,732	1,453,352
1901	193	5,006,936	41,180	172,883	4,731,090	1,351,740
1902	192	5,006,965	42,584	181,031	6,177,633	1,765,038
1903	192	5,043,297	44,092	181,399	6,087,690	1,739,340
1904	191	5,118,121	45,337	184,779	6,106,681	1,744,766
1905	197	5,163,486	50,139	195,277	6,577,364	1,879,244
1906	217	5,279,595	52,668	208,616	7,082,306	2,023,516
1917	224	5,333,275	58,436	205,695	6,930,595	1,980,170
1908	241	5,756,020	67,920	221,195	6,970,250	1,991,500
1909	259	6,053,231	76,898	236,924	7,381,500	2,109,000
1910	263	61,095,671	82,735	233,624	6,772,535	1,093,501
1911	263	6,367,460	85,352	236,649	6,670,531	1,905,866
1912	268	6,463,929	88,951	243,637	7,175,347	2,050,102
1913	262	6,596,862	94,136	253,786	7,336,056	3,096,016
1914	271	6,778,895	104,179	160,276	7,500,961	2,143,126
1915	272	6,848,744	108,009	162,346	7,359,212	2,102,632
1916	266	6,839,877	110,0268	274,361	7,692,013	2,197,718
1917	263	6,738,697	114,621	276,771	7,693,573	2,198,164
1918		Year ending 31st August.				

* The Table below shows the growth of India's trade in merchandise only—excluding treasure. (In crores of rupees.)

Quinquennial. Average.	Imports.	Exports.
1864-65 to 1868-69	31.70	55.86
1869-70 to 1873-74	33.04	56.25
1874-75 to 1878-79	38.36	60.32
1879-80 to 1883-84	50.16	79.08
1884-85 to 1888-89	61.51	88.64
1889-90 to 1893-94	70.78	104.99
1894-95 to 1898-99	73.67	107.53
1899-00 to 1903-04	84.68	124.98
1904-05	104.41	157.72
1905-06	112.11	161.84
1906-07	117.29	177.03
1907-08	136.65	177.48
1908-09	128.79	153.14
1909-10	122.65	187.98
1910-11	133.70	209.96
1911-12	144.05	227.99
1912-13	166.63	246.22
1913-14	198.31	249.71
1914-15	144.93	182.12
1915-16	138.17	199.45
1916-17	160.24	247.31
1917-18	164.36	244.90
1918-19	188.56	255.28

Taking the period between 1874-1914 we find the Imports increasing from 38.362 to 191.31 or by 500 %, while exports in the same period rose from 60.32 to 239.01 or over 400 %. The trade figures give no true indication of the country's wealth; but we may fairly judge the effects of the Tariff policy from these figures. During the same period the Customs Revenue increased from £2.678 million to £7.758 million or 300 per cent. In the last six years the revenue has increased much more rapidly; but the trade figures are vitiated by a disproportionate rise in prices.

That production in the Indian Mills is increasing and that they are producing superior quality in shows by the following table.

Year.	Yarn in thousands of pounds.		Woven goods in thousands of pounds.	
1900-01	281,609	71,364	252,974	98,748
1901-02	486,479	86,459	572,938	119,651
1902-03	476,559	99,135,	575,694	122,576
1903-04	474,509	104,250	578,759	138,044
1904-05	464,621	114,360	778,381	158,747
1905-06	558,393	122,526	680,919	163,880
1906-07	519,008	134,692	653,700	165,768
1907-08	419,108	148,187	638,295	189,052
1908-09	506,728	150,857	657,585	192,365
1909-10	461,530	131,677	598,207	215,361
1910-11	..	..	577,000	226,000
1911-12	..	..	591,000	250,000
1912-13	506,395	182,077	688,473	285,491
1913-14	492,692	119,085	482,777	274,388
1914-15	474,264	177,639	651,903	277,066
1915-16	531,494	190,930	722,424	352,254
1916-17	480,614	200,493	681,160	377,728
1917-18	446,453	214,122	616,595	381,404

The production of woven goods has increased from less than 100,000 pounds to nearly 400,000 or by 400 %. The spinning of yarn over 20s. increased from 71 million pounds to 214 million pounds or by 300 per cent.: counts below 20s. do not show the same increase.

In other directions also the policy cannot be summarily declared to have been ruinous to Indian industry and trade. It is true the new industries—like those of iron and steel, hydro-electric power supply, leather manufactures etc.—have been only recently established. Their present successful appearance is largely due to the artificial protection they received during the war owing to the dislocation of similar industries elsewhere as well as to the freight difficulties. Nevertheless they seem already to have attained a position in which they might confidently expect to supply the portion of the Indian demand that has fallen to their share during the war. The task of restoration and re-equipment of industry in the devastated rations of France, Germany, Italy, Belgium, Austria and Russia is likely to demand the fullest use of the productive capacities of the world at its highest. India need fear no competition in her own market in her recently established industries

for some time * The fiscal policy may, therefore, be said not quite without any reason, to be a secondary factor in determining the industrial prosperity of India. But the strongest plea of the Free Trade in India is that of cheapness. Given the almost incredible poverty of the Indian people, the policy which claims cheapness to the consumer as its guiding maxim cannot but command a most respectful attention from every one who claims to have the interests of the masses at heart. It may be open to doubt if the rulers of India were genuinely desirous of keeping the interests of the masses exclusively before them in all their vascillations in fiscal policy; but it is certain that in the next generation the popular party in India, assuming India to become a self-governing democracy, will have to reckon with this argument. The bulk of Indian Imports have, until recently, been either such as could not be produced in India at all or at too great a cost. Protection to such manufactures in the shape of high Import duties cannot but add to the price which the consumer would have to pay. †

To the extent that the wealth of the people grows and their powers of consumption improve the revenue from this source also grows-thus manifesting an additional advantage its elasticity. Its cost of collection is, as shown elsewhere quite insignificant when compared to the magnitude of the revenue obtained. Finally the lurking distrust of the motives of the English Government in manipulating the Indian Fiscal policy to suit the English interests accounts for the strength of the Free Trade position in India.

The case for Free Trade in India is thus complete. We have, in the foregoing exposition, taken no account of the purely financial side of the question, though, it must be observed, that a source of revenue bringing in about 20 crores a year cannot be bandoned by the Government of India under any probable circumstance articles selected for taxation are mainly those of common consumption so that quite a small list brings in the largest amount of revenue.

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* The present high prices are expected by many to be injurious to new production started on calculations made on the basis of present prices when the inevitable depression sets in. Whether or not there is such a regular cycle of the trade depressions and booms, it may be said, that apart from currency policies, the need of restoring the damage done by war and the gap left in the world production would for some time keep up the world prices. The American war in the sixties closed in 1864 and yet the Trade depression did not assert itself till 1873 all over the world. This last war has affected almost every important country, and the duration of the high prices, other factors excluded, may quite possibly continue for another decade at least. On the other hand the exchange situation due to currency manipulation is causing and must continue to cause serious anxiety; and prevent that briskness of international trade which alone can keep up prices. Countries, like the U. S. A. and India have much to export, but not so much to import, unless they are well paid and properly. In the absence of any satisfactory system of international credit, the revival of industry in the ruined regions will be exceedingly difficult. The Brussels Conference gave rise to the Ter Meulen scheme which has not yet been universally adopted. Meanwhile depression has set in in the United Kingdom with its inevitable sequence of unemployment. Business stagnation has been kept off in India, if at all, by the activities of a few high placed, hardy speculators.

† Speaking on a motion for the abolisition of the countervailing Excise duty on Indian cotton in the Imperial Legislative Council on the 9th of March 1911 the late Mr. G. K. Gokhale expressed himself on the general question of Free-Trade V/S protection in India as follows:—But, Sir, situated as India is, I fear there is no likelihood of that kind of protection being available to us, and **It is my celiberate conviction that in our present circumstances a policy of free trade reasonably applied is afterall the safest policy for us**....Until at any rate we grow so in our influence and our " position in this council that the Government will think it necessary to accept and act on our views, I really think that on the whole a policy of free trade reasonably applied is the safest policy for this country; otherwise influential interests, influential combinations, influential parties in England, who can have a ready access to the Secretayr of State,.. will not fail to take the fullest advantage of the situation; and this huge engine of protection which a vast power can employ not in the interests of the people of India but in the interests of those parties" The present Indian non-official attitude on the question of Imperial Preference reflects from bitter experience, the same distrust of English selfishness

This, however, is only one side of the case. The advocate of protection does not deny the growth of Indian trade and industry under the regime of Free Trade. He only maintains that the character of our foreign trade could have been different, and the growth of industry more diversified and much earlier, had scientific protection been applied to Indian industry at a much earlier date. The diversity of climatic conditions, the richness of physical resources, the abundance of labour make it absurd to dogmatise empirically about the unsuitability of an industry in this country. The idea of the protectionist is that thanks to the prevailing policy, our resources are yet unknown, our capital unattracted, our labour force untrained, unintelligent, irregular and inefficient. * The difficulties, therefore, which Indian enterprise meets with whenever it pioneers new industry must necessarily be immense, though temporary. And it is only to overcome these temporary difficulties that proper protection to nascent industries is desirable. On *apriori* grounds, there is no reason to apprehend any disastrous effects in a policy of sustained, scientific protection merely owing to a rise in prices, since the difficulties caused by that force will be counteracted by a more varied employment with better wages. † There may, indeed, be a temporary divergence between wages and price and a corresponding misery of the working classes. But the watchful might of the state in a government resting on popular support might be trusted to see that the benefit of protection is not exclusively reaped by the capitalist class alone. Industries may have to be regulated and prices controlled to avoid the risks which may possibly arise from a policy of protection. Entirely new industries may even be found profitable to be conducted by the public agency ‡ And if these palliatives do not suffice to overcome the temporary hardship it may frankly be admiitted as a necessary cost for the industrial education of the country. Gifted as India is by nature, she can afford to defy the bogie of retaliation, as there is hardly anything she cannot produce herself, at least to supply her own domestic market. And that market is so vast that for an industry with any chance of existence there would be no fear of a dead failure even if the industry has to be confined to the Indian market. § On a general review, therefore, of the most mportant factors affecting the Customs policy of India, we cannot help concluding that there is at least as much to be said for the policy of protection as for that of Free Trade in India.

* In his Financial speech for 1878-79 the veteran Free Trader Sir J. Strachey observed: "India by the extent and favourable conditions of its territory is capable of producing almost every article required for the use of man". To him, however, this was an additional reason for Freedom of Trade: "Here then is a country, which, both from its poverty, the primitive and the monotonous character of its industrial life and peculiar character of its political condition seems to require from its government, before all things the most economical treatment of its resources, and, therefore, the greatest possible freedom in its foreign exchanges." He felt for the poor Indian in the increased expenditure involved in buying dutiable cotton cloth, but did not feel that his poverty was progressively intensifying owing to the want of diversity in industry. He felt that the annual drain of 20 million pounds required the maintenance of a trade balance in favour of India, but did not see that the exported raw material, which came back in the shape of manufactured goods, cost the Indian consumer all the profits of the manufacturer and the carrier which might have well remained in the country. He instituted a Famine Insurance Fund, which was not kept up; but did not consider the only effective insurance that the diversity of occupation affords.

† The rise in prices is not necessarily equal to or even explained by the Import duties alone. Thus cotton manufactures have increased between 1913-19 from 8 annas to Rs. 1-3-6 or 135 % and 150 % in the case of cloth, though the change in duty was only 3½% Even in spite of falling exchange (100 %) of 1920 there was no great change in prices.

‡ The Indian Government is not stranger to the conduct of great industry, e. g., the railways and opium.

§ This argument pressed to its logical conclusion suggests the economic heresy of a reversion to the old ideal of self-sufficiency. Without going all the length of that principle, we may yet urge the above for what it is worth against the bogie of retaliation in a Tariff War.

COMING NEXT TO DETAILS, THE FOLLOWING TABLE SHOWS THE PRINCIPLE ARTICLES OF IMPORTS.

Articles of Imports.	1914-15.	1915-16.	1916-17.	1918-19
	Figures are in crores of rupees.			
Cotton: raw	.30	.10	.22	1.20
Cotton manufactured..	49.0	43.27	53.6	60.56
Metals; Iron & steel	9.76	9.49	8.88	12.45
„ Tin, Brass, Copper	1.41	.54	.25	.68
Others	.62	.67	.67	1.32
Sugar	10.52	16.62	15.45	15.61
Machinery, etc.	6.04	4.78	5.45	5.00
Silk	3.09	3.84	3.95	4.75
Oils mineral	4.41	4.1	4.43	3.61
„ Vegetable	.10	.8	.8	.4
„ Total	4.68	4.25	4.63	3.72
Liquors..	1.87	1.87	2.33	3.30
Hardware	2.56	2.38	3.11	3.21
Paper & Pasteboards..	1.32	1.44	2.33	2.72
Chemicals	1.02	1.46	1.88	2.50
Spices	1.72	1.87	1.94	2.41
Salt	.74	1.90	1.91	2.33
Wool; raw	.16	.23	.25	.14
„ manufactured	1.88	.96	.97	2.17
Instruments	1.33	1.30	1.75	2.16
Tobacco	.72	.80	1.25	2.14
Provisions	2.11	2.11	2.81	1.94
Apparel	1.07	1.39	1.58	1.83
Matches	1.13	1.38	1.16	1.64
Drugs and Medicines	1.03	1.23	1.39	1.47
Paints	.75	.81	1.15	1.27
Glassware	.96	1.06	1.50	1.24
Rubber	.57	.91	.98	1.21
Railway plant	10.08	4.21	1.56	1.01
Soap	.82	.84	1.00	1.00

THE FOLLOWING TABLE SHOWS THE PRINCIPLE ARTICLES OF EXPORTS IN THE FIVE WAR YEARS :—

Figures are in crores of Rupees.

Articles of Export.	1914-15.	1915-16.	1916-17.	1918-19.
Raw, Jute	12.91	15.64	16.28	12.72
Manufactured Jute	26.81	37.97	41.67	52.65
Raw cotton	33.48	24.93	36.10	31.00
Manufactured cotton	8.01	9.61	13.64	14.10
Grain	29.04	29.07	35.21	40.07
Tea	15.52	20.00	16.77	17.77
Seeds	14.65	10.12	16.65	11.21
Leather	4.75	5.64	9.59	9.70
Hides and skins	7.81	9.79	14.42	9.34
Wool; raw	2.37	3.79	3.85	5.39
,, manufactured	.17	.24	.31	.70
Oils	1.05	1.22	1.52	3.51
Opium	1.76	1.47	2.09	3.12
Lac	1.60	1.72	2.80	2.95
Ores	1.06	1.39	2.38	2.56
Rubber	.93	1.27	1.68	2.50
Dyeing materials	1.61	3.13	3.03	2.05
Hemp	.99	1.02	1.61	1.46
Coffee	1.65	.99	1.07	1.19
Paraffin Wax	.82	.81	1.01	1.11
Spices	.95	.93	1.09	1.09
Tobacco	.36	.44	.53	.96
Silk raw & manufactured	.15	.27	.54	.78
Provisions	.45	.52	.71	.62
Manures	.66	.44	.56	.61
Metals	.53	.79	1.33	.60

Translating these figures into more intelligible language we find that India, in the two principal industries of cotton and jute shows the following position: (Average for the war years).

	Import of Manufactures Crores.	Export of Manufactures Crores.	Export of Raw Material Crores.	Total production of Raw Material.
	Rs.	Rs.	Rs.	Rs.
Cotton ..	45.00	12.00	33.00	5,000,000
Jute ..	.36	40.00	13.00	8,500,000

More than one-third or the total cotton (raw) produced in the country, and over 50% of the jute (raw) is exported. If it be assumed that all

our own raw material, which is now exported, should at least be manufactured the country, we would find that there is considerable room for the expansion. The total value of the cotton, if manufactured in India, ought to exceed Rs. 100 crores. The only means of assuring the full supply of raw materials to the Indian Mills is a tax on the export of these materials in the raw conditions.* If in addition there is much higher,—or at least an equal duty on the manufactures imported, India ought to supply her own market in cotton, and obtain the bulk of the world trade in Jute manufactures. The extension of the two industries should be brought about by these duties would sufficiently increase employment aid wages to render the probably increase in the prices of manufactured commodity relatively unimportant. The only danger from such a policy of taxing the Exports of raw-materials would be its injurious effects on the cultivator and possibly the diminution in the supply of these materials. But cultivation of these crops has gone too far for a duty of 10 % to 20 % to affect substantially the out-turn. † At the worst we would have to evolve some means of price guarantee which would prevent the cultivator being injuriously affected.

Our mineral resources in respect of coal, iron and other ores are yet not fully known or understood. The great imports of iron and steel goods including machinery, cannot quite advisably be taxed very high until we are assured of sufficient total supply of the necessary raw material. But the possibilities of these industries hinted at by the Industrial Commission Report‡ would not allow us to ignore the claims of all metallurgical and mineral industries to protection. They are the key industries which every nation must strain every nerve to establish within the country. We think the best form of protection to these industries would be a certain assurance of market, e.g., by means of government purchases up to a specified quantity and at a slightly higher price.

* The arguments against an Export duty are much too clear to be ignored. But they apply more to the export of foodstuffs than to the Export of Raw materials for industry. That such taxation might quite possibly result in the conservation of the resources of Industry is evidence from the fact that the British Government's Committee appointed to consider the problem of post-war industrial and commercial policy has seriously made such a suggestion involving a scheme of Imperial Preference for raw materials. Between the two alternatives of a prohibition of exports or exports under a system of licenses and export duties, the latter is sure to be preferred in India by the Indian public opinion, since while under former there would always be a suspicion of partiality to the members of the empire to the prejudice of Indian producer, under the latter competition would not permit any such suspicion. Besides a growing proportion of our cotton and jute exports is to non-British countries; the duty therefore would have to be paid by those countries. In the case of jute there can be no doubt of the financial wisdom of an export duty, both of manufactures and raw material, as the experience of the last 4 years shows. A doubling of the present duty would probably and in adding to the revenues about five crores or more until a commercially good substitute for jute has been discovered.

† The case of an Import Duty on cotton is not quite so simple, or strong as that of jute. Out of a total average annual production of 25 million bales, the United States of America produce 15 millions and India produces 5 million, roughly speaking. But the domestic consumption of the United States of America has increased from 33 % of their crop in 1890-5 to nearly 60 % of their crop in 1915-16. There is, therefore, bound to be a steady demand for the Indian Cotton. The greatest consumer of this cotton is Japan 76 % of our total export of raw-materials were consigned to Japan. As Japan is specialising in cotton which is probably an Indian monopoly for all practical purposes as far as Japan is concerned, there is every reason to believe that the export duty of 10 % or so can be easily borne by Japan and any other customer. If the Excise Duty on Indian Cotton goods is abolished the difference in revenue, assuming the duty on Imported cotton manufacturers to be raised to 10 %, would be an approximate increase of 3-5 crores net. The aprehensions about an increase of price of the manufactured cotton articles can be met by a system of sharply graduated tax on the Cotton Mill Companies, a minimum of 10 % profits exempted. Even if the price is raised to the full extent of the import duty the increased revenue might be employed to give tax remissions in other directions, or undertaking other productive expenditure.

Price guarantee for the benefit the raw material producer would be difficult unless Government undertakes a system of wholesale manufacture or encourage co-operative enterprise to take up large scale manufacturer.

‡ See Industrial Commission Report para 55-59.

The case for protection of the sugar industry stands on a different footing. The imports into India, notwithstanding the very high extent of the area occupied by the sugar crop in India, have been stimulated by foreign governments by bounties on sugar, as well as by the backwardness of the sugar industry in India. We would, therefore, suggest that the present duty on imported sugar be doubled and a domestic sugar industry should be encouraged by every means possible. *

But the strongest case of government intervention and protection is perhaps in the case of forests, and the industries connected with or dependent upon them. The imports of Timber, and wood, rubber, gums and resins, paper and paste board amounted to nearly 10 crores in the last year for which figures are available. There is every reason to believe that our Indian forests are capable of yielding all this material and more. A systematic investigation of our resources in this respect and their exploitation would be hastened by the imposition of a 10 %, duty on these and cognate articles on import. †

The same may also be said of hides and skins. We import about 19 lacs of raw hides and skins and 36 lacs worth of dressed hides and skins, against which we export about 20 crores worth of raw hides and skins as well a dressed. This suggests considerable scope for our boot and shoe, saddlery and leather trades. An export duty on hides and skins (raw) of 10 %, coupled with a 25 % import duty on all saddlery, boots and shoes and leather goods will bring about the ideal to be aimed at that we should manufacture fully at least our own raw material. Raw hides would of course be exempt from taxation.

Of oil seeds we export about 27 crores out of a total crop of 36 crores. The oil pressing industry would benefit and the manufacture of oils increase in proportion, if, by an export duty of 20% on the oil seeds, the material is assured for the Home market. We need not suggest the same course with regard to grain crops as, in their case, Mr. Datta's arguments against the export duties will apply in full force.‡

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* Says the Industrial Commission, para 89 "The universal adoption of Power plants for cane crushing would cost about 30 crores of rupees. This expenditure would be justified by the consequent reduction of the present cost of cane crushing and by the increased yield of sugar". Another 50 crores is estimated as necessary outlay for water lifting apparatus to supply adequate water to sugarcane. The total cost of 80 crores at 5 % would mean a burden of 4 crores more than set off by the increase in customs dues and Income Tax as suggested elsewhere .

† The Indian forests and the connected industries including paper making would mean an additional capital demand of Rs. 75 crores including Forests communications and wood distillation.

‡ In his report (1913) on the enquiry into the recent rise of prices in India, Mr. K. L. Dutta thus speak of the export duties on food stuffs; "A study of these figures shows that the percentage of exports to the total production is ordinarily very small and that in years of famine, it dwindles to a still smaller figurs indeed. Thus in 1897-8 it was 86. in 1900-01, and in 1908-9 it was 1.01, while in exceptionally favourable years it does not rise much above 4 %. It was only in two years out of the long period from 1891-2 to 1911-12 that the food supply in India actually fell short of requirements, and had to be supplemented by importing more from outside than was exported from out of the country. This was probably the effect of the export of a considerable quantity of the finer kinds of food grains to the immense benefit of the producers requirements of those who could not afford the finer stuffs were met in their interests by the import of cheaper kinds of grains from Burmah and other countries." His whole agrument supports the case of no export duties on foodstuffs; the relatively small proportion of exports to total production, the possibility of favourable exchange, the steadying influence of exports on price levels, the encouragement to production and the creation of a reserve, all applied to food grains, and not to the raw material for which we have proposed export duties.

This calculation was made in my University Extension Lectures on Indian Industries and Commerce (1919) unpublished. The basis of the calculation was briefly this:—Finding out the actual capital invested in an industry, the number of mills or establishments in that industry, the work turned out and the possibilities of extensions. Dividing one (capital) by two (factories) we get the average capital per factory, multiplying this average by possibility of extension we get the total

Summing up the changes proposed here we come to the following results in the Customs Revenue of the Government of India. It will be noticed that the financial aspects is by no means discouraging, as the changes proposed are not so high as to stop the trade in the taxed article altogether. The duties on the export of raw materials would have to be increased in proportion as the Local manufacture of the sale develops and absorbs more and more of the local material. The full development of these manufactures, would, judging from the present conditions, be more than sufficient for the Indian markets. But the ndustries thus developed will not starve for want of market, as they are immense possibilities for the expansion of Inland trade and that with the neighbouring countries of Africa and Asia. The only difficulty in such a programme would be the absence of capital. It was once calculated that at least 600 crores of new capital investment would be necessary to bring up the development of our industries, commerce, and communications to the desired level. If this capital would be obtained and could be applied properly, there would be no difficulty in accomplishing the industrial development to the fuli extent that with our present knowledge the country seems ripe for.

Contd. from previous page

	Rs.
Cotton ..	..20 Crores
Jute	.. 20 ,,
Silk	.. 10 ,,
Rubber, paper wood distillation, cabinet making, timber	
Tea	.. 75 Crores.
Minerals: Iron, Zinc, copper.	
Coal	.. 50 ,,
Power	.. 25 ,,
Banks & Insurances	50 ,,
Roads	.. 50 ,,
Ship building	..200 ,,
Cannals ..	.. 50 ,,
Total ..	600 Crores.
Agricultural Land improvement..	300 ,,

capital that may be required in that industry. By this calculation I found the marginally noted capital needs in the chief directions in which extension is possible. The six hundred crores required by Industry, or 1000 crores additional capital needed by agriculture and commerce combined, should not be left to be provided by private enterprise, but should be obtained on the credit of the Goverment and worked on cooper-tive principle by associations of producers of raw materials, or, as in the case of big railway project or ship building enterprise, where associa-tions of workers cannot quite be expected to work themselves, on the collective principle directed by the Government. It would be a grave mistake, which would intensify nascent industrial unrest in India, if the Government leaves even new industries like ship building to private capatalists. Since 1918, there has been a very great outburst of Com-pany promotion.

Formation for Industrial purposes in the country; and looking at the bare figures one might almost say that the necessary capital is forthcoming. But there is serious reason to fear that the floatations of 1919-20 are not all genuine and will not all prove profitable.

Summarising the proposals made here we find that the Customs Revenue in India would be affected as shown below :—

Articles taxed	Estimate for 1919-20	Estimate under proposed changes.
	Rs.	Rs.
Special Import duties	10,00,000	10,00,000
Arms etc.: no change	10,00,000	10,00,000
Coal, coke, and fuel: no change	46,000	46,000
Liquors : duty double	1,51,00,000	2,50,00,000
Opium; : no change	4,000	4,000
Petroleum : no change	35,18,000	35,18,000
Silver bullion: no duty	......	......
Silver manufacture: no duty	3,00,0000	......
Sugar : duty raised by half	2,00,00,000	2;75,00,000
Tobacco duty trebled with a monopoly ..	80,00,000	4,00,00,000
Machinery : no duty	25,00,000	......
Iron and Steel 2½ %	40,00,000	40,00,000
Railway plant 2½ %	10,00,000	12,00,000
Other articles		
General 7½ % duty	5,00.000	5,00,000
Articles of food	70,00,000	75,00,000
Raw materials duty 5 %	47,00,000	40,00,000
Manufacture :		
Cutlery : duty doubled	55.00,000	1,00,00,000
Other metals duty doubled	40,00,000	70,00,000
Cotton manufacture duty 10 %	3,70,00,000	5,25,00,000
Other textiles duty 15 %	62,00,000	1,25,00,000
Other manufactures duty 7½ %, 15 % ..	2,20,00,000	3,00,00,000
Miscellaneous Exports duty doubled ..	35,00,000	50,00,000
Jute	2,40,00,000	3,75,00,000
Oil seeds 20 % duty	......	3,25,00,000
Cotton 10 % duty	......	3,00,00,000
Raw hides and skins 10 %		2,25,00,000
Rice and Tea : no change	1,10,65,000	1,10,65,000
Cotton Excise abolished	1,30,00,000	......
Total Revenue	20,02,86,000	34,50,00,000

Financially there is no reason to apprehend a failure as the estimates here given have made more than ample allowance for the diminution in trade resulting from the imposition of these duties. The world shortage of raw materials places India at the present time in an exceptionally strong position. For a generation there is no occasion to fear a falling off of the demand for our raw materials

if we impose 10 % or 15 % export duty, which would, under any estimate, yield about 35 % of the total Customs Revenue. On the other hand the increase in import duties is not likely to be absolutely prohibitive to the foreign importer, at the same time that a combination of materials and duties would suffice to give an effective proctection to our industries. It must, however, be added, even at the risk of some wearisome repetition, that these changes would serve their purpose only if active efforts are made to develop the industries thus sought to be protected in the right direction. Otherwise there would be no justification for these changes. The increase of Revenue under the proposed changes may well be absorbed by the increased burden of debt, involved necessarily in capital borrowed for industrial extension, though, reasonably speaking, the increase shown above is very moderate, and may be confidently expected to turn out in the end to be much greater. On the other hand such a systematic policy of scientific protection will not be justifiable if it in any way omits to safeguard the interests of the consumers, if it fail to prevent or control the evolution of the Trust and the development of monopoly if it refuses to reconcile the needs of the workers with the demands of the capitalists.

LXIV. IMPERIAL PREFERENCE IN INDIA.

The only remaining problem that must be examined in this brief sketch of the Indian Customs policy is the recent proposal for a scheme of Imperial preference. Ever since the famous *Coup de Theatre* by the late Mr. Joseph Chamberlain in the summer of 1903, a growing school of English politicians, warned by the rapid strides of Germany and the U. S. A. in industrial development, has preached a modification of the fashionable doctrine of universal free trade. If the idea of complete freedom of trade cannot be achieved owing to the fiscal policy adopted by most countries in the world, the English statesmen of this school thought that they could at least have freedom of trade within the empire; or, since the self-governing colonies could not admit of absolute freedom, such a co-operative, sympathetic manipulation of the tariff in all the parts of the British Empire as to bring the trade rivals of England to heel within a short time by the exertion of the powerful economic measure. Alternatively they thought of making the British Empire as far as may be self-sufficient. This school was for a while discredited owing to other more urgent problems at home. But the last War has created new incentives. The memory of war hates still continues. And it is an open secret that the allies will try and exclude Germany, if they can, from the world trade. The allies, as much as Germany, need the Raw Materials to renew their old industries. The allies, as much as Germany, need to make good the wastage of war, to reconstruct their diverted or depreciated plant, to rehabilitate altogether their industry. The supplies of raw material are limited—as also the markets for European manufactures. Under these circumstances, we need not be surprised if we find a keen desire for reserving to ourselves and our friends such supplies as are within one's own control. Hence recrudes cence of the new idea of Imperial Preference

which, however, cannot materialise in the British Empire except with the consent of the component parts, or such of them as enjoy fiscal, autonomy.

No definite scheme of Imperial Preference has yet been evolved. We an, therefore, discuss the question only in the abstract. **Speaking generally the interests involved in any proposal for Imperial preference within the limits of the British Empire are likely to be so antagonistic as to render any uniform manipulation of the Imperial Tariffs almost impossible.** The consciousness of a divergence of interests, the suspicion 'not quite without foundation, of ulterior motives; the growting strength of local patriotism will all combine to aid the self-governing dominions in offering a stiff resistence to any likely scheme of preference. And the opposition would be all the greater if the problem is to be considered for the allied—and not from the merely British Imperial standpoint. Australia has no desire to see her markets invaded by Japan any more than India has. The rivalry of Japan and the overwhelming might of the United States are far more to be dreaded in the next generation by those members of the British Empire who, by their situation, or by present trade connections, are likely to be exposed most to such competition than any fears of competition from a demoralised and crippled Germany.

The problem of Imperial Preference seems thus to be of little more than academical interest, but for the recent significant changes in the Customs policy of the United Kingdom and the pronouncement of her leading statesmen. The issue may at any time become a real, living, burning contraversy. We would not therefore, be importing any irrelevent discussion into our thesis if we briefly glance at the possibilities of Imperial Preference as applied to India—particularly as there have been considerable discussions on the subject in the Indian Imperial Legislative Council.*

The hisory of Imperial Preference in this country may be said to date from 1903, when the then Secretary of State requested the Government of India to consider the question. The views of the Government of India, embodied in their despatch of the 22nd October 1903, were necessarily a little vague since they had no definite scheme before them on which to pronounce. They were unanimous in finding the proposals for Imperial Preference in India unsuitable to this

* The Indian Government made a first attempt at Imperial Preference in 1919—in respect of hides and skins and dye stuffs. High duties were imposed on the imports of those articles in the first instance, but a rebate may be allowed if it could be shown that the imports were from the British Empire. This really amounted to a bounty to the British dealers in those goods at the expense of India, The dye stuffs for example now imported from Germany by British merchants into Eng and in the first instance and then re-exported to India giving thus a clear bounty of 10 % to the English merchant. There has recently been further discussion (February 1920) of the general problem with a view to investigate the possibilities of a comprehensive scheme of Imperial preference,, strongly opposed by the non-official Indian members of the council.

country. The trade of India they urged was so distributed as to be in very great proportion as regards imports from the British Empire, and a relatively small proportion of exports to the United Kingdom and the British Empire generally. Allowing for the necessary modification of these figures, owing to the fact that a good deal of the exports to Hongkong and the Straits—included under other British possessions — was eventually meant for China and Japan, the total of our export trade with foreign countries would amount to 61 % of our entire Export Trade. Any scheme of Imperial Preference which allows India to tax all imports, only with a preference to those obtained from the British Empire—would be objected to by the British manufacturers * And without such a permission the Indian people would entertain very great suspicions of the bonafides of any scheme of Imperial Preference. The situation has no doubt altered, during the intervening period; but the alterations have only ended in intensifying the situation. Our imports still are mainly manufactures, which, there is every reason to believe. India can, given suitable conditions, develop at home. Our exports consist largely even now of raw materials and foodstuffs, which it is the interest of the countries to which we export them to receive them without let or hindrence. In the period before the War the bulk of Indian exports were received by countries with the most intense Protectionist policy either free or charged only revenue duties. † Even, as in cotton, where India does not enjoy a Producers' monopoly, the condition of production as well as the world demand of such commodities are so favourable to India, that she can scarcely expect any beneficient change in her volume or direction

Imports.	Amount	P. C.
From U. K.	£.	
From U. K.	34,849,000	66%
From Br. Europe ..	4,995,000	8.5%
From foreigner ...	12,681,000	25.50%
Exports	**Amount**	**P. C.**
To U. K.	£.	
To U. K.	21,165,000	25.6%
To the other British Empire	28,061,000	21.4%
To foreigners	44,694,000	53.0%

Imports 1918-19	Amount.	P. C.
	£.	
From U. K.	51,338,000	46%
From British possessions ..	13,320,000	12%
From foreigners ..	48,031,000	42%
To U. K.	48,,286,000	28%
To British possessions	40,057,000	24%
To foreign countries with modifications	80,899,000	53%

* "The net result is that Indian Exports to a value exceeding 38 millions sterling and approximating to one half of the entire volume of our Export Trade are admitted free of duty in the consuming markets, while of the remainder a considerable proportion is either subject to relatively moderate duties, or, as in the United Kingdom, to duties imposed for purely revenue purposes, and with no attempt to differentiate against us." (para 8 of the Government of India despatch of October 1903). This was quite properly ascribed by the Indian Government" to the nature of the bulk of exports, which consist in great measure of raw materials which are an object of importance, if not of necessity to the importing country". (Ibid).

†. **Excluding Government stores the following table gives an analysis of the Indian Foreign Trade.**

	Imports.				Exports.		
	£. I.	£. II.	£. III.	£. IV.	£. I	£. II.	£. III.
1911-12	13.6	6.04	64.64	1.26	38.2	63.7	32.77
1912-13	15.6	8.26	81.95	1.50	52.05	68.98	38.22
1913-14	16.4	7.03	96.77	1. 9	43.1	81.64	36.39
1914-15	13.0	6.20	71.11	1.5	32.6	53.38	31.05
1915-16	18.4	5.68	62.37	1.79	35.3	50.0	42.14
1916-17	18.16	6.66	73.0	1.13	37.3	66.0	51.31
1917-18	18.02	6.53	73.28	2.44	50.3	55.30	48.48
1919-20	20.32	6.62	82.16	3.73	42.16	57.66	58.02

N. B.—The figures are given in million sterling at the old rate of Exchange of Rs. 15 equal £ 1. The casses are :—

I. class includes Articles of Food, Drink and Tobacco.
II. ,, ,, ,, Raw materials.
III. ,, ,, ,, mainlay or wholly manufactured.
IV. ,, ,, ,, miscellaneous character.

It will be observed that the imports under III vary between 70 to 80 % of all our imports, while to exports under II & III amount to $\frac{2}{3}$ to $\frac{3}{4}$ of our exports.

of trade, by being a party to a scheme of Imperial Preference, which would require her to discriminate as 'between her customers, not on the economic grounds of her own material interests, but on specious political considerations which might be foisted upon her Government. And, if the early policy to Imperial Preference is to be modified in the interests of the allies, the loss to India —who finds Japan a dangerously growing rival even in the Indian market and much—more in the Chinese–would be too clear to require further demonstration.* There is, moreover, nothing in which India can bargain with other members of the Empire. England will in all probability insist upon free imports of the food-stuffs and the raw materials required for her population and industries in any scheme of Imperial Preference, which would give the Indian producer no advantage But even supposing a preferential treatment is given in the English market, the only exports to benefit at all would be tea or wheat. These have, as it is, an already assured market; and for them, therefore, no additional preference is desired unless simultaneously India is set at liberty to tax the imported manufactures, sufficiently high to give her own manufactures an appreciable advantage.

The Government of India feared in 1903 that any acceptance of the general principle of Imperial Preference might result in the Indian fiscal policy being manipulated in—not Indian but anti-Indian interests. In the years, that have since elapsed there have occured no events to remove this apprehension. It is, generally speaking, unsound to introduce political considerations in this economic problem. But as Imperial Preference is itself the child of political pressure, there can be no objection in mentioning the fact of anti-Indian feeling and legislation in the chief British colonies. So long as this kind of invidious and oppresive treatment is specially meted out to Indians in the leading British Colonies, it would be preposterous to expect any Indian Statesman to accept or agree to the principle of Imperial Preference. † On the contrary, the new Self governing India would surprise the world if it does not start an active policy of effective retaliation against these colonies as the first evidence of the birth of true self-government in India.‡

* Imports and Exports from Japan and U. S. A. have grown. These figures tell their own tale without any need of comment. The capture of Indian market by Japan and our exclusion from China by Japan is made only too painfully evident by a further analysis of these figures.

Year.	JAPAN. Imports. £.	JAPAN. Exports. £.	U. S. A. Imports. £.	U. S. A. Exports. £.
1909-10	1,681,000	8,425,000	2,453,000	9,677,000
1911-12	2,248,000	9,003,000	2,325,000	9.067,000
1912-13	2,318,000	11,163,000	3,527,000	10,445,000
1913-14	3,187,000	15,130,000	3,193,000	14,564,000
1914-15	2,197,000	10,443,000	3,120,000	11,611,000
1915-16	4,998,000	12,202,000	5,347,000	14,176,000
1916-17	8,889,000	18,835,000	67,304,000	20,835,000
1917-18	12,175,000	22,774,000	7,877,000	20,378,000
1918-19	22,349,000	19,658,000	10,766,000	22,182,000

† The anti-Indian feeling and Legislation in British Colonies like South Africa have not ended owing to the war, or the services rendered by Indian troops during the war. The latest manifestation was the action of South African Government in modifying the law relating to Acquisition or holding of property by Indian in the colony. It was, if anything, more intensely anti--Indian than any such legislation before the war.

‡ Says the Report on Constitutional Reforms (1918) "After the War the need for Industrial development would be all the greater, unless India is to become a mere dumping ground for the manufactures of foreign nations which will then be competing all the more keenly for markets on which their political strength so perceptibly depends" para 336 p. 212. Again" Connected intimately with the mater of Industries is the question of Indian Tariff....The changes which we propose will still leave the settlement of India's Tariff in the hands of a Government amenable to Parliament and the Secretary of State, but inasmuch as the Tariff reacts on many matters which will henceforth come more and more under Indian Control, we think it well that we should put forward for the information of His Majesty's Government the views of educated Indians upon this subject " para 341, page 215.

The only effective reason, which restrained the strong European nations in their Tariff wars in the last generations, was a wholesome dread of Retaliation. But we in India—as Sir E. Law showed in his minute to the Government India's despatch of October, 1903 on the Tariff question--need not fear by any such retaliation.* We possess more than ample resources of raw material; immense labour supplies; still untried power resources. Even capital, if only it is sought in the right direction and assured against unmerited failure, would be forthcoming from amongst Indian resources in the necessary quantities. **There is no country in the world so able to defy retaliation, so likely to be self-sufficient if required as India.** Tariff discrimination by foreigners, therefore, need not be feared by India, if she is able to develop her own industries herself.

The one argument against the Imperial Preference to which the dispatch of the Government of India above referred to necessarily gave great prominence, has slightly altered in its bearing in the interval. They feared the effects of a Imperial Preference on our Exports owing to a possible Retaliation--and consequent disturbance of the balanced trade in favour of India.† If the excess of Exports of Indian produce could not be kept up to the usual degree—the newly established

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* Sir Edward Law's conclusion with regard to Tariff question in India :—

" 136 Before attempting to draw any conclusions from the above examination of such facts as can be ascertained. I must once more insist that information at our disposal for a correct appreciation of all the numerous points involved in the question under consideration is insufficient. It requires to be supplemented by inquiries as to the uses to which Indian produce is put when received in foreign markets; and without such full information in this respect as could only be obtained by local inquiries in the different countries concerned, we can not say with certainty how far, in case of a tariff war, each individual country could afford to assume an aggressive attitude, hampering the supply of raw materials required for its industry. At the same time I feel sufficiently confident that with the great majority of countries with which we trade, and as regards the very great bulk of our Exports of raw materials, we are not only in a safe position, but we could even afford. in certain instances, ourselves to assume an aggressive attitude by going so far as to impose Duties on the exportation of produce they require for their industry. This is not the case with every country, or by any means with regard to all classes of produce exported, and with possible exception in the case of Russia, Austria. Germany, and Belgium. it seems to me to be more in Indian interests to leave matters as they are, than to embark on a new fiscal policy, unless indeed, by its adoption very great advantages could be obtained by preferential discremination in favour of exports to the United Kingdom and British Colonies and possessions.

139. The situation appears to me to be this, that India could probably give without serious danger some small preference on her present low tariff rates on Imports from other parts of the Empire; but she has little to gain by so doing, and would incur a risk of difficulties with her foreign customers in proportion to the extent of preference given in a system of inter imperial preference and to the rates of tariff on which it was given. If we were to raise our average tariff rates to, say, 10 %, (which I would not in any case recommend) so as to give an appreciable preference of 20 or 30% to our Imperial relations, such a difference might so affect our import trade with our foreign customers for exports that they would necessarily consider the advisability of retaliation and we might be landed in a series of tariff wars the results of which we cannot foresee with certainty. On the other hand such very small prefrence as might probably be given with fair prospects of safety, on generally low tariff rates, would hardly be likely to afford such advantage to British Manufacturers as would prove of material benefit to their interests.

110 Two important points must, however, be borne in mind in considering the whole question—first that most of the foreign countries which would be likely to resent the introduction of an inter imperial preferential tariff are interested both in obtaining our raw materials and in supplying us with their manufactures and that this situation gives us a double weapon to use against them if necessary; second, that the percentage of profits on manufactured goods is as a rule considerable and consequently trade in many manufactured articles might not suffer appreciably from a small percentage of the cost of production of raw material and produce would seriously check importation unless the supply of such commodity were necessary for important industries and were so limited as to partake of the nature of a monopoly. I have already shown that a large proportion of Indian exports consisting almost entirely of Indian raw materials and produce is of that nature.

† Extracts from Sir Edward Law minute (op. cit).

137 I have indicated as far as possible how far it would appear such advantages might be obtained but in existing circumstances and in view of the fact that our exports consist almost entirely of raw materia,l and produce, it does not appear probable that materially important advantages could be offered to us under a system of preferential tariffs in our favour adopted for other parts of the Empire. The gain to the United Kingdom would probabty be considerable as also to the Maritius; but I doubt if our trade relations with other parts of the Empire would be materially advanced in their favour by any far reaching change of policy.

138 In my opinion it might be difficult to show that a preferential trade would prove directly prejudicial to Indian interests but should we be urged to join in a general preferentiai arrangement I think that it would be our duty to point out strongly that, if our export trade with foreign countries were, in any way seriously prejudiced, we should run a very great risk of disturbing the balance of trade, now strongly in our favour, and we might find ourselves once more plunged into the deep sea of trouble arising from a depreciating currency depreciation of Exchange value of our rupee currency".

currency system would become impractical to maintain. Apart from the fact of India's being a debtor country, her political dependence upon England involved the payment of an annual tribute, called Home Charges, nearly £30 million a year Disturbance of the Exchange which would lower the value of the rupee would necessarily be regarded by the Government of India with the utmost alarm. But the situation has altered appreciably.* Though India has not yet become a creditor country, there is no reason to fear that in the next decade or generation her credit balance of trade would not be maintained. The present problem of Exchange is not how to prevent a fall in the gold value of the rupee but rather how to arrest the continued tise of the exchange value of the rupee, which has now (February 1920) broken all records. This particular reason, therefore, is not of great interest to-day though even now our currency system is far from satisfactory.†

* Since the above was written Exchange has again gone against India till the rupee is worth 15d (April, 1921.) The Currency muddle is the one absorbing topic of the day ; but so far no practicable, or acceptable solution has been suggested. In an appendix to this work an attempt is made, in the form of a draft Bill, to lay down principles and details of Currency reform in a constructive form.

† The conclusions of the Government of India are from their stand point of maintaing a status quo as the best policy. We cannot of course, agree with them in their entirety. We have quoted them with approval only in as far as they are against a policy of Imperial preference. Even now Indian opinion would rather prefer a policy of free Trade—and a tariff for revenue purposes only—to any scheme of Imperial Preference where India is sure to lose more than she is ever likely to gain.

CHAPTER VI.

OPIUM REVENUE AND FORESTS REVENUE.

LXV. Opium Revenue.

Forty years ago when the Strachey Brothers published their standard work on the Finance and Public Works of India, they might well describe the Opium Revenue as the second most important item of revenue in India. The amount of the revenue, the problems connected with its assessment, collection, the variation which occured almost annually in considerable magnitudes, and the strong agitation carried on in England by a section of the British Press and public opinion —all combined to make the Opium Revenue the most widely discussed item in the Indian Budget--second. if at all, only to the great item of the Land Revenue. But in the interval the situation has changed radically. Opium is no longer the second biggest item of revenue-nor the third nor yet the fourth. It no longer arouses the same anxietv and speculations as to its yield that were once inseparable from any study of the Indian Opium Revenue. It does not even give rise to interesting scientific discussion as to the proper method of collecting such a revenue under the rival claims of a heavy export duty and of a public monopoly. As the opium question has receded completely in the back ground within the last 10 or 15 years as well from financial as from a moral stand point, we shall limit our discussion of this once important item in proportion ito its present significance, with just a sufficient historical outline as to make the discussion intelligible. Such a plan would necessarily involve the eschewing of the discussion of the relative merits of an Export Duty, and a Monopoly as also of the general principles governing a public monopoly.

PRESENT POSITION OF AN OPIUM REVENUE.

The total revenue derived from Opium is obtained in three ways, and credited in the accounts of the Government of India under the two heads of Opium proper and Excise. The former represents (a) the proceeds of the sales by public auction every month of Opium manufactured in the Government factory at Gazipur,* and (b) the income from the Export duty levied per chest of Opium sent out from the Native States of Rajputana and Central India. The manufacture of the Bengal Opium is a public monopoly ever since the days of the East India Company, and the revenue from that source was continually growing from 1793 to 1905. As the manufacturing monopoly would not be maintained without a corresponding

* The Opium department was formerly divided into two Agencies one of Bihar with its head-quarte at Patna, and the other for the United Provinces with its head quarters at Gazipur, both being controlled by the Government of Bengal. In 1910, owing to the diminution of work, the agencies were amalgamated, and a single Agent was stationed at Gazipur under the control of the United Provinces Government Cultivation of poppy in Bihar was discontinued in 1911.

control on the sources of raw materials, the Government of India have prohibited cultivation of the poppy except under a license from an authorised officer of the Government, and subject to the condition that the cultivator must sell the whole of the crop to the Government.* He is assisted during cultivation by advances made on account. The cultivator delivers the crop in a crude state at the local centre, whence it is forwarded to the Government Factory at Gazipur to be there prepared for the market. It is called "Provision Opium" if it is destined for export. It is packed in chests of uniform weight and sold by public auction at Calcutta. The Opium destined for local consumption is known as the "Excise Opium", is distributed direct from the factory or from the public warehouse at Calcutta, to the Government Treasuries in the country, who issue it to licensed druggists or vendors only. Out of the sale license proceeds a sum representing the estimated cost of production is credited to the Opium Revenue, the rest being credited under Excise.

The Revenue from the Malwa Opium is derived from a pass duty levied on the opium exported from the Native States. Since 1912 some portion of the Revenue is derived from License fees—or sums paid to the Government for right to export Opium from India within these states. The production of Opium for the market is carried on in the traditional methods. The Government, however, annually fixes the quantity which may be exported; and no poium may pass into the British Territory, whether for Export or for consumption, except on payment of the Pass Duty. The duty is levied at convenient stations maintained at Indore and elsewhere by the British Government. From these stations the opium is consigned to a central depot or public warehouse at Bombay—to be thence issued to traders. The duty on the Malwa Opium is now 1200 rupees per chest of 140 lbs. being raised in 1912 from Rs. 600 per chest. The right to export it is now also disposed of annually by public auction.†

The subjoined table shows the Gross Revenue and Expenditure of the Government of India, together with the amount of Chests sold and the prices realised. It will be noticed that in the last dozen years. The Opium Revenue has been steadily declining due to the agreement with China under which the Government of India have bound themselves progressively to deminish the quantity to be exported to China. Originally the export to China was to cease by progressive

* The price now paid to the cultivator is Rs. 7-8 per seer of 70° consistency.

† The principal areas where poppy used to be cultivated were:—Bihar and districts of the United provinces lying along and in the north of the Ganges Valley, and a number of Native States in Rajputana or Central India. Opium from the former area was known as Bengal Opium, while that from the latter was known as the Malwa opium. In smaller quantities Opium is also produced in Baroda, Ajmer Merwar, the Punjab, the Shan States and certain villages in Upper Burma.

Formerly when the Opium Revenue was an important item, the adjustment of the revenue derived from the two sources of Government monopoly and Pass duty used to occasion considerable discussion. Sir J. Strachey explains (op. Cit. page 266 et seq.) the reason why a different rate must be charged on the Malwa opium than on Bengal Opium. A Malwa chest contains 90 to 95 percentage fine opium as against the 75 % or 80 % in Bengal Opium. A fixed pass duty on the former though levied empirically must press less heaviy on the superior Opium of Malwa. On the other hand, Malwa Opium was subject to the addtional taxation by the State Government. Minute calculations were necessary to show the exact incidence of the pass duty as compared to the gains from the monopoly price. The subject is now of purely academic interest. A portion of the revenue is derived from the Pass duty which is handed over to the Native Governments concerned. The advantage to the Government of India is necessarily in the Bengal Opium and its increased sale but the Pass Duty has in the past been frequently manipulated to suit the financial needs of the government of India.

reduction within 10 years, but by subsequent treaty of 1911, the Government of India agreed to hasten the period of complete stop to the exports. Since 1913 Exports of Opium to China have been stopped.

Year.	Revenue.	Expenditure	No. of Chests. sold.	Price per chest.
	Rs.	Rs.	Rs.	Rs.
1861-62	6,359,269	1,449,465	70,063	1,600
1862-63	8,055,476	1,856,278	29,393	1,428
1863-64	6,831,999	2,306,493	39,240	....
1864-65	7,361,405	2,368,666	49,646	....
1865-66	8,518,264	1,894,217	64,111	956
1866-67	6,803,413	1,077,330	40,000	1,248
1867-68	8,923,568	1,874,121	47,999	....
1868-69	8,453,365	1,720,711	....	....
1869-70	7,951,557	1,820,683	....	....
1870-71	8,045,459	2,014,425	....	....
1871-72	9,253,859	1,596,646	40,961	1,385
1872-73	8,684,691	1,814,268	42,665	1,385
1873-74	8,324,879	2,001,280	42,750	1,265
1874-75	8,556,629	2,341,546	45,000	1,207
1875-76	8,471,425	2,218,565	45,510	1,215
1876-77	9.122,460	2,841,647	47,240	1,270
1877-78	9,182,722	2,661,266	49,500	1,266
1878-79	9,399,401.	1,698,730	55,500	1,225
1879-80	10,319.162	2,067,492	59,100	1,170
1880-81	10,418,051	2,028,757	56,400	1.362
1881-82	9,862,444	2,057,335	56,400	1.324
1882-83	9,499,594	2,282,816	56,400	1,221
1883-84	9,556,501	1,854,690	54,400	1,251
1884-85	8,816,469	2,966,640	46,698	1,296
1885-86	8,942,515	3,057,674	....	....
1886-87	9,942,976	2,729,063	....	....
1887-88	8,515,412	2,424,575	....	....
1888-89	8,562,319	2,579,905	....	....
1889-90	8,583,056	1,605,107	....	....
1890-91	7,879,182	2,180,797	....	....
1891-92	8,012,380	1,611,813	56,250	1,056
1892-93	7,993,180	1,602,496	48,852	1,247
1893-94	6,627,571	1,876,607	43,353	1,109
1894-95	7,327,357	1,616,130	39,780	1,337
1895-96	7,123,922	2,068,941	37,695	1,390
1896-97	5,179,722	2,389,117	39,000	1,023
1897-98	6,409,238	2,486,692	39,000	1,244
1898-99	5,735,330	2,373,290	39,000	1,055
1899-00	4,401,952	1,727,154	39,450	1,221
1900-01	5,102,242	1,785,875	41,700	1,361
1901-02	4,852,022	1,608,690	48,000	1,297
1902-03	4,498,438	1,648,483	do.	1,144
1903-04	5,736,045	2,257,744	do.	1.462
1904-05	6,021,499	1,967,085	do.	1,587
1905-06	5,468,780	1,892,441	49,000	1,434
1906-07	5,660,528	1,913,292	52,800	1,381
1907-08	5,344,986	1,669,441	48,900	1,350
1908-09	5,884,788	1,236,088	45,900	1,384
1909-10	5,544,683	1,110,155	42,300	1,612

Year.	Revenue.	Expenditure.	No. of Chests sold.	Price per chest.
	Rs.	Rs.	Rs.	Rs.
1910-11	7,521,962	1,24,657	37,500	2,892
1911-12	5,961,278	7,29,452	26,330	2,790
1912-13	5,125,592	59,972	17,890	2,781
1913-14	1,624,898	1,0[illegible],240	9,000	2,120
1914-15	1,512,218	6,54,889	1,0648	1,658
1915-16	1,913,514	11,44,331	10,020	1,719
1916-17	3,160,005	9,12,394	..	..
1917-18	3,078,903	1,108,782	..	..
1918-19	3,229,000	13,37,200	15700	3,413
1919-20	3,056,200	1,016,100	..	..

LXVI.—CRITIQUE OF THE OPIUM POLICY.

While the Opium Revenue lasted it was the subject of the most violent controversy on financial, and even more on moral grounds. The opium revenue, it was urged, was the most uncertain item in the Public Budget. The chaos in the early finance under the Crown was frequently ascribed to the precariousness of this branch of the Revenue. It is certainly true that upto 1867 the Government of India do not seem to have had any definite policy as to the amount of opium grown and manufactured; as to the amount to be sold and the price to be realised. The revenue was therefore exposed to the tender mercies of the Opium speculator to a large degree. When, following the recommendations of Sir C. Beadon, the Lieutenant-Governor of Bengal, the policy of fixed sales and maintaining reserves to keep* up the fixed sales was adopted, the Revenue began to be free from the disturbing action of speculative bids. But the natural defect of the opium Revenue depending upon the amount of the crop, which, in its turn, was determined by the character of the season, could not even then be eliminated, while a certain amount of speculation persisted notwithstanding all attempts to stabilize the market. The growth of the Persian exports, and the competition of the home-grown Chinese opium made it impossible for the Government of India to keep up a stable price by their own control of the Indian trade. When, however, full allowance was made for the natural defect, its alleged precariousness was not

*Sir Cecil Beadon thus formulates the general principles of the Opium Revenue:

"It is not desirable that the area under poppy cultivation should be in excess of what on an average of years is found sufficient to produce the desired quantity of opium.. If in any year the produce of opium exceeds the quantity which it is thought desirable to bring forward for public sale, the excess should be held as a set off against the temporary increase of expenditure involved in its purchase, and as a Reserve against failure in future seasons; but if in any year the crop be a short one and there is no such reserve, the quantity to be brought forward for sale must of necessity be limited to the actual supply, and though there may be some saving in the actual expenditure for the year the net revenue must either decline or be maintained only by such an increase on the selling price as will stimulate the competition from abroad." These recommendation may be summed up thus:

(1) The quantity sold must as far as possible be the same. To this end a Reserve stock must be established.

(2) The amount brought forward for sale must be determined by the price realised.

(3) The price asked for should be such as would not allow of effective competition from abroad nor promote local production in China"

The Government of India created an Opium Reserve after 1870 and declared their total sales in advance for the whole year—the montaly stock auctioned being 4,700 chests.

invariably prejudicial to the Revenue. As the greater amount of the fluctuations entered on the side of the Expenditure the proportion of disturbance was relatively smaller. As a matter of fact the fluctuations in prices have been much greater since the Opium Treaty of 1907 than ever before, making the yield for a few years after the treaty extraordinarily inflated by speculation running mad.

But the objections urged on moral grounds werefar more bitter and persistent It was urged by that section of the English Public, which is always ready to assert its puritanical sense of moral justice, whenever the justice can be administered at the cost of somebody else, that the Opium Revenue was derived from the misfortune of China; that opium traffic was forced by the superior might of the British Government against the known wishes of the Chinese people to the contrary; that the connection of the Indian Government as a monopolist in this injurious traffic must necessarily be deprecated—condemned, even if the traffic was unfortunately not abolished. Strachey, (op. cit.) and Baring (the late Lord Cromer) in his financial statement for 1882-3, have shown how baseless these arguments were. The ability of the Chinese Government to control the traffic with a view to its abolition was quite legitimately doubted on the strength of the opinion of those, who, by their long residence in the country, were qualified to speak with authority, and much more on the ground of an undisputed extension of poppy cultivation in China itself. * Far from the Indian Opium having monopolised the Chinese market it was said to be confined only to the principal ports and the sea-board districts. From its superior quality and higher price the Indian Opium was used only by the relatively richer classes of the Chinese; and so the share of the Indian Government in "a progressive demoralisation of the Chinese people" was of the smallest proportion. Besides, from the Opium trade the Chinese Government itself derived considerable revenue; and its willingness to stop the traffic may be reasonably questioned on purely financial grounds.

It is, indeed, a moot point whether the Government monopoly of such an article as opium is more injurious than beneficial. Admitting that the consumption of such a drug is harmful, it is all the more necessary that the traffic should be more effectively controlled by a Government monopoly. The display of puritanism by a Government, which would lead it to wash its hands completely of anything in connection with that traffic, is likely to be more harmful to the people affected. The private trader would not be satisfied until he sells the utmost he can reckless of the results of this trade. The Government of India had discussed the whole question more than once; 1858, 1864, 1882, and had felt on each occasion that the balance of advantage lay on the side of the monopoly, as much in the Chinese as in the Indian interests. In the Chinese market the Indian supply was an important, but by no means the only factor. By certain natural advantages India could

* See Strachey (op. cit. Page 256 et seq.) for opinions of Sir J. Wade and the Shanghai correspondent of the Times, September 1889 on the question of Opium production in China itself. "It is historically false to assert that we have made war with China with the object of forcing our opium upon her against her will and in spite of her protest that the opium trade was demoralising her people. The first Chinese war was caused by the desire of the Chinese Government to prevent the exportation of silver, which was believed to be impoverishing the country. The second war had nothing to do with opium" (op. cit. page 255-6)

produce good opium at a price which no other country could afford. The only consequence of the abolition of the monopoly would be a stimulation of competition to the disadvantage of China, which would get a relatively poorer quality of the drug for a probably much higher price. And the Government of India had to consider the Indian interests as well. The removal of control would give rise to serious problems of the internal regulation—the Excise on Opium for example, to restore the old onerous inland customs line which was abolished in 1879—for the benefit of the Excise on local consumption. The discontinuance of the close connection of the Indian Government with the Opium Trade would intensify the moral objections, because both India and China would be flooded by the more deleterious drug.

The injurious effects of opium consumption, while they cannot be denied, may yet be exaggerated. The harm consists not in a moderate but in an excessive use of the drug. In the case of opium the Indian people—like the Sikhs who are notorious for their heavy consumption of opium—can show no very prominently bad effects; and it may be doubted if the Chinese decadence can really be ascribe entirely or even largely to the opium sent out from India under Government monopoly. Besides, the practice of modern Governments to derive huge sums of revenue from the drink traffic—which is at least as harmful to Europe and America as opium is alleged to have been in China—made the protests of the English puritans against the Indian Government's monopoly of opium unspeakably ludicrious to those who could view the subject without an unnecessary alloy of maudlin, sham, sentimentality.

The Government of India pointed out in 1882 the strongest objection they had to the abrogation of their monopoly. If they withdrew their monopoly and substituted an Export Duty for the sake of the revenue, Sir E. Baring calculated that the Government could not expect from an Export Duty of Rs. 600 a chest—higher duty was impossible in view of the known risks of the trade—an income above £2.75 million against the average of £5 million they were obtaining under the monopoly. The loss of such an amount would certainly involve additional taxation in India; and the Indian Government might well urge the obvious injustice of taxing the people, whose average income per head was Rs. 27 per annum for the benefit of the Chinese, even assuming, against all probability, that the imports into China would not be increased. At the time the Government had also to consider the effect of the cessation of the Indo-Chinese trade on the Exchange, which, it was rightly held, would be most unfairly disturbed to the increasing embarrassment of the Indian Government. *

* The opinion of the Government of India was expressed by the Finance Minister in these words in 1882 "The Government of India is at present quite unable to device any means by which the loss of revenue consequent on a suppression of the poppy cultivation in Bengal could be recouped, and that until such means can be devised the loss of the Bengal opium revenue would result in the normal annual expenditure of India being greater than its receipt that is to say that India woud be insolvent" and again "to make India to provide a cure which would almost certainy be ineffectual to the vices of China would be wholly unjustifiable."

N. B.—The average profit per chest to the Government was calculated at Rs. 859 on a sale price of Rs. 1,250. The export duty allowing for the trader's profit could not be greater than 600 per chest.

In 1882 the Government of India were entitled to and deduced some special pleading as regards the opium revenue. The exchange difficulty was becoming more and more chronic every year. They had passed through a disastrous war, and heavy famine expenditure. They could not, therefore, be very well pressed to give up the opium revenue—a net income of over 5 million pounds without any burden upon the Indian tax payer—especially as about the same time India was called upon to forego another considerable revenue in response to the Free Trade agitation in England—the general 5 per cent. Import Duties. These special difficulties continued and were accentuated in the remaining years of the century. When, however, exchange had been stabilized, when prosperity in Budgets was evidenced by repeated surpluses, the anti-opium agitation revived. The Chinese Government became more insistant in their complaints against the opium traffic, and offered to give concrete pledges of their willingness and ability to check the spread of the opium habits in the celestial Empire, if only the Government of India would undertake to co-operate. By an agreement made in 1907 the Government of India undertook in ten years to stop the export to China by progressive reductions of 5100 chests every year in the opium destined to be exported to China, if the Chinese Government could show that on their side they would take energetic steps to put an end to the business altogether. In 1911 it was found that the Chinese regulations against opium were proving successful. The Government of India then undertook to apply the whole of their reduction of the Chinese trade by giving a certificate to each chest ear-marked for export to China, and allow China to exclude evey chest not so certificated. In April 1913 the sale of certificated opium was stopped altogether reducing at the same time the opium to be sold in other countries.

At the present time therefore the opium revenue may be said to consist partly of monpoly profits from domestic consumption credited under the head of Excise. partly of monopoly profits in auction sales of opium destined for countries other than China; and partly pass Duties levied on Malwa opium. The subjoined table gives an analysis of the revenue as it now is.

	Revenue.		Expenditure.		
Year.	Sale proceeds of Bengal.	Excise opium.	Purchase price.	other charges.	Net Revenue.
1911-12	74,864,728	4,145,337	9,334,254	1,583,522	5,231,826
1912 13	49,805,735	4,963,493	7,670,577	1,320,747	4,524,863
1913-14	19,192,177	4,768,501	13,932,608	1,242,832	612,438
1914-15	18,771,785	4,811,491	8,579,357	1,227,924	918,129
1915-16	24,119,712	4,583,000	15,870,745	1,282,616	369,957
1916-17	41,578,730	5,821,345	12,160,402	1,513,254	2,248,428
1917-18	40,273,194	5,910,344	14,980,342	1,630,472	2,970,121
1918-19	41,624,000	6,810,000	18,116,000	1,933,000	1,891,800
1919-20	38,950,000	6,893,000	11,361,700	2,065,000	2,010,100

The sacrifice of the opium revenue, though causing a strain on the Indian finances and though known to be the result of English sense of moral justice asserting itself at the India Office, did not however rouse the same opposition in India as the Customs Legislation due to the same forces, and involving the same financial consequences, had done a few years before. The loss of the opium revenue was spread over a number of years, and for the first two or three years the restriction of supplies leading to the high prices did not allow the loss to be perceived. The leaders of Indian opinion had begun to perceive the moral responsibility of India and the hands of the Government were strengthened by the cooperation in the new policy of the best representatives of Indian opinion.* In the years immediately preceding the inception of the new policy there was considerable relief given to the Indian tax payer by progressive reductions in the salt duty, and by raising the minimum of income exempted from the income tax. There was thus not the same intensity of feeling in India against the abandonment of the opium revenue in 1908 as there was in 1892 and so the new policy was carried into effect quite smoothly.

The opium revenue derived from local consumption still continues to be an important item in the total Excise Revenue. Opium being still monopolised Government charges the monopolist's price—the highest that can be paid. The sale of opium is subject to the same regulations as the vend of other intoxicants and it seems that the policy of gradual extinction or rigid restriction of the habit would be adopted in the case of opium as in that of other stimulants.

LXVII—FORESTS.

India possesses an enormous, unknown, unexplored wealth in her forests which cover nearly 23 % of the total area of India and Burma.† The duty of the state

* The following rather long quotation from the Budget speech of the late Mr. G. K. Gokhale may be taken to voice the Indian sentiment on this subject.

"I confess I have always felt a sense of deep humiliation at the thought of this revenue derived as it is from the degradation and moral ruin of the people of China. And I rejoice that there are indications of a time coming when this stain shall no longer rest on us. The only practical question is how to put an end to this morally indefencible traffic with the least derangement in our finances. It has been suggested in some quarters that the British Exchequer should make a grant to India to compensate her for the loss of this Revenue which will be entailed by the extinction of this traffic. Now apart from the fact that there is not the slightest chance of England making such a grant I think the proposal is in itself an unfair one and ought to be strongly deprecated. No doubt there are important questions like the Army Expenditure in which India has to bear a serious injustice at the hands of England. The cost of Civil Administration ought to be substantially reduced by a large substitution of the Indian for the European Agency in the public services. And if only justice were done to us in these matters we could let the whole opium revenue go and yet not feel the loss. But these question have to be fought on their own merits and ought not to be mixed up with this opium question. So far as the opium revenue is concerned, whatever may the measure England's responsibility in forcing the drug up on China the financial gain from the traffic has been by India alone; and we must therefore be prepared to give up this unholy gain without any compensation from anybody when in the interests of humanity this wretched traffic has got to be abolished". These sentiments could not have been better expressed by the most puritanical of the English nonconformists or by their most eloquent. It must also be added that they were probably shared in full by the intellectuals in India though not the same can be said of the trading or agricultural masses.

† **The following figures show the forest area in the different provinces in 1915-16.**

Province	Total Area.	Total Forest Area.
Bengal..	78.875	10.612
United Provinces.	106,725	7,493
Punjab	96,650	7,796
Burma..	205,048	142,322
Behar ..	83.122	2,789
Assam	48,915	22,368
Central Provinces and Berar	99,948	10,667
Coorg.	1,582	520
North Western Provinces	13,184	236
Ajmere	,767	142
Baluchistan	45,228	785
Andaman	3,143	3,107
Madras	142,261	19,583
Bombay	23,0313	12,481
Total	1,099,481	249,000

to conserve Forests was not recognised till after the time of Lord Dalhousie who chalked out a comprehensive scheme of forest conservancy and sylviculture. A regular Forest service, staffed by men trained in Germany or France, was organised in 1869 and a local training school—the Imperial Forests School of Dehra Dun—was started which was raised to the status of a College in 1908. Local Forests schools are also being multiplied. The object of the Present Forest policy is to preserve the forests from the wanton destruction which would otherwise have occurred inevitably under the pressure of a growing population, trade, and expanding building as also in view of the influence the forests are known to exercise on the movement of the rain-bearing currents * They are under three heads. The Reserve Forests, the Protected Forests and the Unclassified Forests. In the first the regulations are very minute as to the use of forest area by the neighbouring population, the grazing of cattle, or the removal of produce. Their effect has been well summed up in the saying that in the Reserved Forest everything which is not specifically permitted is an offence. This naturally causes considerable hardship to the population which have for so many generations been dependent for the food of their cattle and even of themselves upon Forest produce.† In the Protected Forests a greater latitude is allowed. Nothing is an offence against the Forest laws which has not been specifically prohibited. These are areas in which Government seem to be experimenting, deliberating as to whether they shall be classed as Reserved Forests or not. The last group of forests is almost an unknown quantity from the stand point of their utility and the consequent necessity to preserve them under stricter regulations. Exploration or investigation is being continually carried on, and as the result of this investigation the unclassed area may be suitably classed as Reserve or Protected Forests.

FOREST FINANCE.

Under the present system Forest Revenues are derived from the royalties on or the sale proceeds of the timber or other forest produce, and by the issue at specified rates of fees to graze cattle, or to extract for sale timber, charcoal firewood, bamboos, canes, and other forest produce. The following table shows the growth of the Forest Revenue ‡

* After a careful inquiry into the Forests Policy between 1904-1914 the Government of India, in their circular of 27th February, 1915 indicated their main conclusions thus:—
(a) The effect of forests on rainfall is probably small.
(b) The denudation of soil owing to the destruction of forests may, so far as India is concerned, be looked upon as an established fact.
(c) As regard the effect of forests on rainfall and the underground water supply, there is nothing to justify any change in the principles on which the Forest Policy of the Government has been hitherto based
(Cp. The work of the Forest Department in India p. 9)

† During the administration of Lord Reay in Bombay, when the new Forest legislation was introduced there was a violent agitation among the people concerned. The feeling of oppression is not even now extinct.

‡ The Revene and Expenditure figures before 1911 include the receipts from, and charges of the Keddah or Elephant catching Department in Burma. It was however a losing concern and the Keddah Department has since been ablolished.

The Indian Industrial Commission of 1918 remarks *a propos* of the Forest Revenue. "As the above figures will have shown the natural forest state is of vast extent and value but a scrutiny of the out put per square mile proves that its actual yield was hitherto lagged behind its posibilities, and is in most areas *greatly in defect of what the natural increment must be. The chief needs of the Forest department* are undoubtedly the development of Transport facilities, the exploitation of forests on more commercial lines, and the extension of research and experimental work which should when necessary be carried out on a larger scale and under commercial conditions.

Year.	Gross. Revenue.	Expenditure.	Nett Revenue
1865-6	367,183	213,779	153,904
1871-2	501,920	354,616	147,308
1872-3	874,435	557,645	316,690
1881-2	1,490,058	843,926	656,132
1891-2	1,151,35[illegible]	705,581	451,774
1901-2	1,298,103	....	..
1902-3	1,481,116	813,618	667,498
1903-4	1,601,997	869,138	732,859
1904-5	1,779,566	954,818	824,758
1905-6	1,768,911	948,866	820,045
1906-7	1,732,610	980,340	752,270
1907-8	1,700,894	994,158	706,736
1908-9	1,735,386	1,006,897	728,68[illegible]
1909-10	1,735,386	1,032,26[illegible]	796,29[illegible]
1910-1	1,829,557	1,142,202	809,977
1911-2	1,852,179	1,142,202	809,977
1912-3	2,153,509	1,152,585	1,000,424
1913-4	2,229,872	1,174,488	1,055,384
1914-5	1,980,652	1,217,808	762,844
1915-6	2.074,425	1,242,867	831,558
1916-7	2,470,795	1,251,765	1,219,030
1917-8	2,731,284	1,411,012	1,320,242
1918-9	2,904,200	1,742,700	1,161,500
1919-20	3,352,800	2,051,500	1,301,300

These figures do not include that portion of the forest produce which is given away freely, or at specially low rates, and which was valued in 1915-16 at Rs. 85 lacs. The net revenue would be very much different if this surplus were added* The figures of Expenditure include conservancy charges as well as the general charges of direction and supervision. The expenses of the Forest college at Dehra Dun and the Ranger school are also included. They amount to about three lacs.

LXVIII.—CRITIQUE OF THE INDIAN FOREST DEPARTMENT.

As would be evident from the note appended the defect of the Forest department is that it has not yet learnt to look upon the estate it administers

* In 1918-19 the amount of Forest produce removed by right holders and free granties was :—

Timber	5,000,000	Cubic ft.
Firewood	80,000,000	,, ,,
Bamboos	worth	Rs. 92,000
Grass and Fodder	,,	Rs. 38,00,000

with any eye to its industrial possibilities.* The old view of Forests as inducing rain-fall is not scientifically proved to be erroneous; but to neglect altogether the immense hidden forest wealth or to suffer it to be wasted cannot be in the best interests of the country. The table in the margin gives the value of the Indian forest produce as valued at the port of shipment. Owing to the demand for Forest produce caused by the war the Indian Munitions Board helped to encourage the erection of improved factories for the better utilisation of the Forest produce. But even so we are far from the position when we can say India's potential forest wealth is explored to the utmost. The total value of the forest produce exported was made up in 1915-16 as shown in the margin. All competent authorities agree, however, that this by no means represents our total capacity. There has not yet been any reliable estimate of what the Indian Forests can produce if worked to the best advantage without in any way exhausting the wealth.† But the experience of the few efforts made in developing Forests Industries points unmistakably to immense possibilities which it would be rash to endeavour to estimate on the present most insufficient data. Thus the Pine Resin industry, starting from very small beginning in the Punjab and the United Provinces, had grown by 31st March 1919 so as to give a total resin collection of 125,633 maunds, the operations extending over 97,525 acres of forest with 4000 operatives. On a total capital investment of Rs. 11,22,571 the year's net trading profit amounted to Rs. 7,75,575 out of a gross revenue of Rs. 15,72,414.‡ Against such successful experiments we might point out those which are undeveloped. Thus India consumes annually something like 75,000 to 80,000 tons of paper, of which the Indian Mills supply about a third, or during the war, about 30,000 tons. We import on an average Rs. 1,32,00,000 worth of paper and paste-board, which during the war has been in excess of Rs. 2 crores. We import in addition about 13,250 tons of paper pulp. There is no doubt but that if the enormous supplies Bamboo and elephant grass available in India were fully utilised, India would produce more than the 50,000 tons, she now imports, and thus keep the 2 crores of rupees within the country. Another Forest industry which may be developed

Year	Rs.
1912-13	4,69,80,613
1913-14	4,54,25,118
1914-15	4,17,49,407
1915-16	4,79,30,443
1916-17	2,99,84,737

Articles	Value.	Quantity
Caoutchouc	1,26,67,226	2,354 tons.
Lac Button	5,75,805	638 „
„ Shell	1,54,73,836	17,933 „
Others	11,26,171	2,295. „
Cutch Gambier ..	24,19,989	7,276 „
Myrabolams	70,52,353	69,633 „
Cardamoms	7,43,953	215 „
Sandal Ebony &c. ..	15,58,120	32,403 „
Teak	60,56,864	3,622 „
Other timber	2,56,122	..
Total	4,79,30,443	..

* The forest estate is not being fully worked. Hence waste and decay are considerable. The present output is only 345,000,000 cubic feet, while at least 1,200,000,000 could be harvested, thus an increment of 855 million cubic feet is being carried forward annually; and taking 80 years as the average rotation 10½ million cubic feet represent loss by natural wastage and decay annually." (cp. Statement of Forests Conditions in British India, p. 21.)

† "Fifteen years ago it was estimated that in Germany work in the forests provided employment for 1,000,000 persons, while 3,000,000 persons, earning £30,000,000 a year were employed in working up the raw materials yielded by the forests The Indian census of 1911 gave 1,191,367 people and their dependents as so employed in British India and a further 394,097 in the Native States" (op. cit. p. 36.)

‡ "The Indian Forester" for April, 1916 pp. 187-201 brings out the fact that whereas a chir pine tree yields at maturity at most Rs. 30 gross revenue, the gross value of its resin comes to Rs. 138, inclusive of compound interest at 3½ % p. a.

is that of matches.* India imported in 1917-18 over 18 million gross of boxes valued at about $8\frac{1}{2}$ million pounds or more than eight times the pre-war import; and it is not impossible to believe that further extensions are possible, not to mention the manufacture of rubber in India in all the thousands and one ways in which it is made useful.

In this summary we necessarily leave out the larger industries dependent on the proper working of forests. Wood distillation and extraction of oil from sandal wood, which has now been made a success and almost a monopoly by the Native State of Mysore, are examples in point even if we leave out still larger industries like Cabinet-making, ship building &c. As estimated elsewhere, the full development of the Forest produce of India would involve a capital outlay of Rs. 50 crores but the results are bound to repay this outlay serveral times over especially if this exploitation is made by Government or local governing bodies adjoining. † After the years of initial construction the revenue from Forests would in all probability not fall below Rs. 5 crores, or allowing for the interest on capital, Rs. 3 crores net. ‡

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* In 1918-19 out of the total imports of over 18 millions gross of matches Japan alone supplied over 15 millions. By a careful manipulation of the trade by a skilful combine of their manufacturers and shippers the Japanese have practically captured the whole of the Indian match trade at the cost of Sweden and Austria.

† The following are instructive tables as to the capacity and possibilities of our Forest Industries, compiled from the Statement of Forest Conditions in British India.

	Utilisation of Forest Produce	cub. ft.	Rs. 1918-19
1	Railway Steepers	8,000,000	60,00,000
2	Timber	70,000,000	7,80,00,000
3	Firewood	173,000,000	52,50,000
4	Bamboo (No.) ..	150,000,000	15,00,000
5	Dac (Tons.)	20,000	1,80,00,000
6	Myrabolams (Tons) ..	52,000	15,19,000
7	Cutch (Tons.)	20,000	6,00,000
8	Sandalwood (Tons.) ..	550	6,60,000
9	Grass & fodder	......	75,00,000
10	Resin	2,000	7'86,000
11	Turpentine (gls.)	160,000	3,50,000
	Total ..		12,01,65,000

Forest Industries. Industry:	Rs. Value.
Railway Steepers. ..	3,00,00,000
Saw Mills (155)	7,80,00,000
Venner & T chests ..	600,000
Furniture (35)	....
Bobbin factory	12,00,000
Match Factory (6) ..	6,30,000
Firewood &c.	52,50,000
Resin &c.	6,75,00
	11,63,55,000

The Possibility of extention are at least 50 times as great as the present position indicates.

‡ In regard to the agency best calculated to develop the Forest resources, the Government of India have *laid down in their Resolution reviewing the quinquennial Forest Administration (1909-10 to 1913-14.)*:—

In forest administration the object in view is two-fold; first to conserve and improve the forests... and secondly to secure to the tax-payer the greatest immediate benefit from their commercial working. To obtain the best commercial results departmental or private agency should be employed as circumstances dictate, and provided always the Government receives a fair share of the profits earned, private agency should be freely employed. But when this is done the term of the contract should on the one hand be sufficiently long to enable the initial outlay to be recovered, while on the other hand provision should always be made for a revision of the rates of royalty at stated intervals so that Government may not be deprived of its fair share of any rise in prices which may take place. Should it be found impossible to employ private agency on these terms, Departmental working should be adopted, and if this cannot be undertaken by the trained staff without prejudice to its work of conservation and improvement, there seems to be no reason why a separate staff specially trained in commercial exploitation should not be employed." (p. 15. the Work of the Forest Department in India.)

For reasons which seem to us conclusive we find no justification for the employment of any private agency at all in this great task of conservation and exploitation of national resources. Apart from a legitimate apprehension of giving rise to indefensible vested interests, as also the fears of an intense extension of Labour troubles we consider the use of private interests as financially prejudicial to the in terests of the community, inasmuch as the great difficulty in the way of developing sylvan industries is the absence of adequate, economic means of transport. The only agency that can supply this want is some form of state activity, the benefit of which, however, will almost wholly go to such private entrepreneurs. Again, the latter will demand some sort of guarantee of interest, or undertake only those industries which have been demonstrated to be successful by the costly pioneer efforts of the Government, all which would impose an unfair burden upon the community at large. Finally, owing to geographic reasons, forest industries will be most economically developed only on a monopolistic basis, which needs but to be mentioned to be rejected as far as private agency is concerned.

CHAPTER VII.

IRRIGATION AND RAILWAYS.

LXIX. Public Works Department of the Government of India.

The two branches of revenue mentioned as the heading of this chapter have ever since the transfer of the Government of India to the British Crown, been great spending departments. Recently however, they have become revenue-yielding departments. Until within the last twenty years the Railways were a losing concern, taken all in all, while until after the famines of 1897 and 1899, the attention of the Government of India was not claimed in equal proportion by Irrigation Works along with the Railways. Apart from the effects of the activities of the Public Works department upon trade and industry, and indirectly upon the wealth of the people, their finance alone has given rise to considerable and heated controversies as to the exact limits of the sphere of state action, the wisdom of meeting such charges out of ordinary revenue or out of borrowed funds, &c. In the financial survey of these works attempted in this chapter we can but glance briefly at the important considerations involved in shaping the Public Works Policy as a whole—and that too only in so far as they influence the financial side of the enterprise.

The importance of Irrigation works in India has perhaps not been fully appreciated by her English rulers, who, in their own island home, with few shallow streams and perennially damp weather, could not have any proper appreciation of the value of artificial water supply to agriculture. In this country, however, large tracts of land—like the desert of Sind and Rajputana or the districts of South-West Punjab—are practically rainless and offer no facilities to agriculture unless watered artificially. Others again there are, which, like the uplands of the Deccan, make cultivation precarious to a degree owing to the irregularity of the rainfall and the consequent exposure, of crops for long intervals to a blazing sun. Some crops, moreover, like rice and sugar cane, require a sufficiency of water which cannot be had, except in the most favoured regions, but by means of Irrigation. Intensive cultivation due to an increasing pressure of population has led to double crops being grown every year on the same bit of land, but in many regions while the Kharif or the autumn harvest can be raised without the aid of artificial water, the Rabi or winter crop would be impossible if it depended on rain water for its growth.

Owing to such conditions irrigation works have in this country always claimed the best attention of the rulers. Even now some of the most important canals of Northern India and Reservoirs in the South are nothing more than the restored

works of the earlier rulers kept in repair; and even when the rulers could not or would not undertake vast projects of perpetual benefits, the cultivator could himself construct a little well just enough to water his own little bit of land. In the folk-lore and imagery of our country there is no figure so familiar as the primitive well. Wells and tanks are the earliest of our irrigation works. The simple inundation canals of Sind and the Punjab are probably next in order of time. The truly British contribution to the Irrigation system of India consists in the large works, constructed for the purpose of utilising the surplus waters of large rivers, though even in this direction the Mogul forerunners of the British have left imperishable monuments of their desire to consider and provide for the welfare of the people ruled.

LXX. HISTORY OF IRRIGATION UNDER BRITISH RULE IN INDIA.

In the early days of the British Rule in India they necessarily had to work upon the inheritance that the British Government had received from the former rulers. Thus the Great Barage or Grand Anicut—had been built across the width of the Cauvery in the Madras Presidency long before the advent of the British. The genius of Sir A. Cotton perceived the value of this relic of indigenuous rule and his tenacity helped to complete its utility by the construction of an Upper Annicut across the Coleroon, thus giving the full level required for the utilisation of the Grand Annicut across the Cauvery. The irrigation works in the Deltas of the Krishna and the Godavari were constructed by the same engineer * at a cost of 3 crores of rupees to irrigate 2 millions acres of land. In the northern provinces, following the models left by the Moghul rulers, Sir Probin Cautley constructed the great Ganges canal, which takes off from the river at Hardwar, and which in magnitude and boldness of design has not been surpassed by any other irrigation work in India or elsewhere. The river system of Northern Indian plains afforded peculiar advantages for the construction of bold, vast, canals, which like the Chenab Canal of the Punjab, with their several hundreds of miles of channel, irrigate millions of acres, often reclaiming large tracts of waste lands and making them among the richest of the cultivated areas of India. Compared to the magnificient works of the Punjab and the United Provinces, the Bombay works like the Lake Fife or lake Whitney, pale into insignificance. But the Madras triumph in the reservoir at Periyar-which, constructed on the outer slopes of the ghats, carries the water of the river by means of a tunnel through the intervening hill, thus turning the river back on its own watershed to fructify large tracts-may easily rank among the first of the irrigation wonders of India.

EARLY FINANCE OF IRRIGATION WORKS.

The East India Company had hardly a settled policy to speak of in the finance of irrigation as in any other direction, though, after the conquest of the Punjab,

* So completely was Sir Arthur Cotton identified with irrigation projects in India that frivolous people in England used to suggest he had water on his brain. That he could resent the impertinence even when it was offered by Lord George Hamilton, is shown by the letter he wrote to the Secretary of State and quoted in his life written by Lady Hope, his daughter,

the great work of the Baree Doab canal was undertaken at the instance of Sir John Lawrence and Lord Dalhousie.* Whenever the revenue permitted it a great personality like Sir J. Lawrence or Sir A. Cotton could manage to squeeze out some portion and devote it to irrigation. But the absence of a settled policy allowed these works to be undertaken spasmodically, with little good result comparable to what might be expected. The diligent search for directions in which retrenchment could be made after the Mutiny prevented closer attention being given to Irrigation works in the early years of the direct rule of the British Crown. The whole cost of construction and maintenance was charged to the revenue; and even when the distinction between Ordinary and Extraordinary Public works had been introduced in the sixties,† the proper distinction between capital cost and maintenance charges was not always understood or observed, while the superior claims of the Railways, urged by a powerful interest with the vested rights of guarantee, were beginning to monopolise the attention of the Indian Government, so that in spite of Sir Arthur Cotton's suggestions that water carriage would be cheaper and more suitable to Indian conditions,‡ all irrigation and navigation works received but perfunctory attention. The losses suffered by the Orissa Water Works Company, the question of sovereign rights in charging water rates and other such problems led to an early decision in the time of Sir J. Lawrence's Viceroyalty that all Irrigation works should be constructed out of public funds.

Further elaboration of the Financial Policy with reference to irrigation works was postponed during Lord Lawrence's time. The superior demands of barracks for European troops prevented any substantial consideration being given to Irrigation projects. The Orissa famine, and later on the Bengal Famine diverted attention to irrigation at first; but the necessity to carry food to the famine-stricken areas soon deflected it to Railways. The late famines and the war with Afghanistan

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* Lord Hastings wrote as early as 1815 after his inspection of the Jamuna canal "I will only say that my own inspection has fully convinced me of the facility and policy of immediately restoring this noble work. Setting aside the consideration of its certain effect in bringing into cultivation vast tracts of the country now deserted and thereby augmenting importantly the landed revenue of the Honorable company the *dues to be collected from the distribution of water from it would make a most lucrative return.*" (Minute Sept. 21, 1815 quoted Dutt op. cit. p. 166)This however was with special reference to a given Project and can scarcely be called a general pronouncement of policy.

† The following is an analysis of the Public works Grant in 1862-3.

1	Work of public Improvement	2,380,000
		£.
2	Railway Supervision and cost of land.	132,500
3	Loss by Railway Exchange	366,300
4	Civil Buildings	570,000
5	Military Works ordinary	650,000
6	,, ,, ,, *Extraordinary*	*50,000*
7	Income (1 %) Tax appropriation	380,000
	Total	4,528,800

‡ Before a select committee of the House of commons appointed January 28, 1878 Sir Arthur Cotton deposed that the railways did not provide food for man and beast,; did not carryy the whole traffic of the country: did not carry it cheaply enough; did not pay interest on cost and debt; did not drain the country and did not provide drinking water for the country. He proposed 4 main lines of Navigation cannals (1) Calcutta to Karachi up the Ganges and down the Indus (2) to Cocanada to Surat up the Godavary and down the Tapti (3) Up the Toongbhadra and Coimbatore.

gave no more surplus whether from regular revenues or borrowed funds to be devoted to irrigation. The marginal table shows the total amount spent on irrigation works between 1870-80. Against the £ 125 * Million spent on railways, irrigation barely got about 10% or less. The famine commission of 1880 did, indeed, report the Irrigation works to have been of " a great advantage to the state, regarded merely from the direct financial return on the money invested, in increasing the wealth of the country in ordinary years and in preventing or mitigating famine in years of drought. " But the continued fall in the value of the rupee made the Government of India unwiling to undertake any borrowing in England in order to avoid piling up sterling indebtedness and the construction of large works out of current revenues was not to be thought of. The Russian scare and the, increase in the Army, the frontier troubles and the loss of Customs revenue, the famines of 1897 and 1899 and the new scourge of plague strained almost to snapping point the resources of the Government of India. Before the next great Indian Irrigation Commission reported in 1903, the position was: that out of 226 million acres annually under crop in the irrigated areas and provinces of British India, 44 million acres or about 20% were ordinarily irrigated. Of these 18½ million acres or 42 per cent. was watered by public irrigation works (canals and tanks); while the remaining 25½ million acres or 58 per cent from privat works. Of these more than half was irrigated by wells. From 1875 to 1900 the area irrigated from state works had increased from 10½ million to 18½ million acres and that from private works by 3 million acres.† The financial results are shown in this table.

Year.			£.
1870	..	..	2,695,465
1871	..	..	718,438
1872	..	..	983,854
1873	..	..	770,920
1874	..	..	1,198,682
1875	..	..	1,235,391
1876	..	..	1,105,445
1877	..	..	943,423
1878	..	..	806,084
1879	..	..	794,654
1880	..	..	598,837
Total		..	11,851,193

2 Dutt. P. 362.

Class of Works.		Capital out lay to end of 1900-1	Net Revenue in lakhs.	Net revenue less interest	
		Rs.	Rs.	Rs.	
Major works	.. .. ..	36,62,72,000	2,59,70,000	1,13.15,000	3%
Minor works	With cap. a 'c	3,20,04,000	19,18,000	6,38,000	2%
Other minor works	..		87,87,000	87,87,000	
Total	..	39,83,76,000	3,66,75,000	2,07,40,000	

The Commission reported that the field for the construction of new works of any magnitude of which the net revenue would leave a surplus after paying interest charges was restricted to the Punjab, Sind and parts of Madras. These works they recommended, should be constructed as fast as possible. not merely as they

* The Expenditure on Railways no doubt continued during this period as before; but as will be seen below it must be mentioned that for the first time during this period the Government of India began to consider the possibility of raising the wind in India for their public works activity. See section on the Debt of India and the financial statement of Sir E. Baring in 1882.

† These figures do not include the area under irrigation in the Native states. The total area irrigated in the whole of India was estimated by the Commission at 53 million acres. 19 million from Canals, 1[illegible] million wells, 10 millions from Tanks and the rest from miscellaneous sources.

would be profitable investments but also because they would increase the food supply of the country.* As regards works designed as a protection against famine the commission worked out comprehensive proposals for a general policy, by taking first the case of a single district frequently experiencing famine; calculated the cost of famine relief in such a district and also the cost of possible irrigation works for it; and then made their recommendations on a comparison of the two. Thus taking the single district of Sholapur, which is the most famine suceptible in the whole of India, the Commission calculated the average annual cost of famine relief in it at 6 Lakhs of rupees. Making allowance for the fact that it is more advantageous to prevent famine than to relieve distress when it has ocurred, they estimated that on such a basis the State would be justified in protecting such a district at the cost of Rs. 221 per acre. For the general protection of the Bombay Deccan they recommended the construction of canals from storage works on the ghats where the rainfall has never been known to fail even in the driest years. It would impose a permanent annual burden of 74 lacs on the state through the excess of interest charges on the capital cost over the net revenue produce from these works. On the other hand, if the suggested works were all constructed there would be a considerable reduction in the cost of famine relief in future years of famine, estimated by the commission at Rs. 31 lakhs. This would leave a net difference against the state of Rs. 44 lakhs a year—an amount which may well be considered as no more than the proper price paid for the protection against famine and other incidental advantages resulting from this programme.

Besides recommending the restoration or reconstruction of sundry other works, the Commission further sketched a rough programme† of new major works

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* The test of a productive work requires that **within ten years of its commecement, the project should meet all the working expense: as well as the Interest charge from the date of its initiation inclusive** The following table shows the present position (1916-17) of the Major Productive Irrigation works none of the Railway companies could have satisfied the rigid test laid down for a productive irrigation wosrk nor shown the position afer meeting all charges that the irrigation works show. The whole cost of these works, it may be noted, including any extension or improvements, is met out of capital funds loaned to the project.

Name.	Capital outlay. Rs.	P. C.
Godavery system	1,50,00,000	21.1
Krishna ,,	1,63,00,000	17.4
Periyar ,,	1,07,00,000	3.9
Ganges Canal	3,87,00,000	10.2
Lower Ganges Canal	4,17,00,000	5.7
Agra Canal	1,23,00,000	6.5
Western Jamna Canal	1,77,00,000	10.2
Upper Bari Canal	2,18,00,000	17.4
Lower Chennab	3,24,00,000	43.6
Lower Jhelum	1,59,00,000	23.6
Sirhind Canal	2,56,00,000	11.6

† The following are among the chief works suggested by the Commission:—

(1) The Punjab triple project the Upper Jhelum, the Upper Chenab and the Lower Bari Doab at a total estimated cost of Rs. 10½ crores, sanctioned 1904, now completed.

(2) The Sind Sagar Canal: deferred.

(3) Woolar lake storage—Kashmir—suggested by the Commission in aid of the Punjab triple Project—was dropped by the Government in 1905, but has since been sanctioned.

4) Sutlej Valley Project, under investigation.

(5) Sind Irrigatin by Sukkur Barrage and Canalisation of the Indus—not approved by the Secretary of State, but still under investigation—estimated cost of 7¼ crores of rupees.

(6) Nira canal in the Bombay Deccan estimated to cost 2 crores and 57 lakns was sanctioned as a Potactive work in 1912 and will not be completed till 1913. The Gogak canal in the same region recently sanctioned as Protective measure is estimate to cost Rs. 197 lakhs.

In Madras, United Provinces and Central Provinces similar suggestions were made by the commission which are at Various stages of development:

The works of this class still under construction are (1916-17)

		Rs.
1.	Upper Chenab Canal Estimated cost	365 lakhs
2.	Upper Jhelum Canal ,, ,,	451 ,,
3.	Lower Bari Doab Canal ,, ,,	220 ,,
4.	Upper Surat Canal ,, ,,	206 ,,
5.	Mahanady Canal ,, ,,	99 ,,
	Total	1,241 ,,

.o be constructed in the different parts of India at a total cost of 44 crores of rupees. When completed, they estimated, these works to result in an addition of 6½ million acres to the irrigated area.

The net effect of the Commission's recommendations was to provide the Government of India with a uniform policy, in place of the spasmodic efforts which characterised their previous endeavours in this field. With very few exceptions the recommendations of the Irrigation Commission were accepted in their entirety, and in some cases the Government programme has been in excess of the Commission's recommendations. But for the untimely outbreak of the War, and the consequent strain on the finances of India, several projects—which had in the last century been pooh-poohed as impracticable—would have been put into execution. It is to be hoped, therefore, that the return to normal conditions would be signalised by a resumption of the Irrigation programme more vigorously than in the last five years. But while emphasising the need for a vigorous irrigation policy we must not in any way ignore the necessary limitations which the nature of the case imposes upon large new works. (1) A great portion, probably more than one-third of the total area irrigated, is watered by wells constructed by each cultivator himself. So long as the average size of an Indian Agricultural holding remains below 8 acres, the well will continue to have an advantage over the canal water, not only because of the superior fertilising power of well water, but also because of the relatively greater cost of the canal water. The financing of wells hardly enters at all into the accounts of the Government of India, except through the Takavi loans—or, if a Land Bank were started, through the loans made by an Agricultural Land Bank established under the Guarantee of the State.* Then (2) again, though we in India have not yet paid sufficient attention to the possibilities of Inland Navigation, it is not impossible to believe that the greater costliness of railway carriage and railway construction may lead to the more extensive developments of canalisation of our important rivers for purposes of navigation. We are already finding a congestion on the Indian Railways which is enemical to the movement of goods or the more bulky produce like rice or seeds or coal. It is quite possible to believe that the railroad may eventually have to be supplemented by the river carriage. But if the rivers of India are to admit of canals constructed for the navigation purposes it is not absolutely unlikely that the irrigation canal proper may suffer. Twenty years ago the opinion seemed to be unanimous among the experts that India cannot afford to construct navigation cannals in view of the requirements of Irrigation. At the present time the problem of internal navigation is under serious consideration by the Government. If the project of linking up the main rivers of India for navigation is accomplished we would have to reconsider our whole policy of canalisation for irrigation alone. (3) Supposing, finally, that we have completed all possible

* According to the latest estimate the area irrigated by wells alone, which are almost entirely private works, is reckoned at 30% of the total irrigated area or not much short of 20 million acres in irrigation. The cost of a well varies according to the character of the well and the soil it is dug in. Taking an average cost at Rs. 500 for the whole country, and premising that the country as a whole needs 10,00,000 [illegible] additional outlay of 50 crores is needed for agriculture.

irrigation works on a large scale ; and assuming that the amount and the value of crops have been much increased,—and that a reliable insurance against famine guaranteed ; we must in normal years yet provide for the removal of the surplus foodstuffs. Railways or navigation canals there must be, whatever may be the vigour with which irrigation works are prosecuted. And, from a purely financial standpoint, it is also clear that if all classes of productive public works are to be constructed out of borrowed capital, the amount available for irrigation must necessarily be the remainder after the other works have been provided for or at least in proportion. This would also be an effective limitation on the most enthusiastic or ambitious irrigation minister.

The foregoing remarks must not be taken to imply any doubt of the value of irrigation works in India, nor any approval of the relative indifference with which these works were treated by the Government of India all through the nineteenth century. It is a moot question discussed a little more fully below whether, considering the poverty of India, the Government of India were well-advised to construct Railways at the rate and in the way they did, while Irrigation or navigation works were neglected. But the present question of Irrigation Finance must be taken to be indissolubly involved in the agrarian problem as a whole. According as the size of the average holding is large or small would the requirement of Irrigation be different and so also the financing.

LXXI. THE IRRIGATION REVENUE.

The irrigation revenue of the Government of India is derived almost wholly in the form, either of enhanced Land Revenue, or owners' or occupier's rates. They necessarily vary very much according to the crop irrigated, the quantity of water required, and the time at which it is required, the quality of the soil, the intensity and constancy of the demand and the value of irrigation in increasing the outturn. Thus near Poona, for lands raising sugar-cane, as much as Rs. 50 per acre is paid; but this is exceptional; is confined to a very limited area, and is at all possible because the cultivator can raise a crop which pays as much as Rupees 800 per acre. In other parts of the Moola canal the rate varies from Rs. 40 per acre to Rs. 12, and in the rest of the Bombay Deccan Rs. 25 to Rs. 10 per acre. In Madras the maximum rate for sugar cane is Rs. 10, and in the Punjab Rs. 8/8 on rice. Madras charges between Rs. 5 to Rs. 2 per acre. In both these provinces Irrigation is confined to rice almost wholly. In the Punjab, where wheat also is grown by irrigation, the rate varies from Rs. 7 to Rs.3/4 the ordinary wheat charge varying from Rs. 4/4 to 3/12 and for fodder crops from Rs. 3 to 2/8 per acre. The average rate realised from Major Irrigation works of all kinds is Rs. 3/8 per acre.

THE FOLLOWING TABLE SHOWS THE REVENUE FROM IRRIGATION WORKS.

Year.	Gross Revenue.	Expenditure	Net Revenue
1881-82	1,479,459	2,048,356	—568,897
1891-92	2,272,040	2,945,019	—673,021
1892-93	2,418,902	2,940,479	—521,577
1893-94	2,296,409	2,862,567	—566,158
1894-95	2,338,815	2,952,780	—613,965
1895-96	2,299,953	2,976,31	—676,358
1896-97	3,150,639	3,251,009	—100,370
1897-98	3,569,864	3,144,085	—425,779
1898-99	3,463,574	3,193,437	270,077
1899-00	2,399,862	2,263,475	136,387
1900-01	2,555,919	2,320,327	230,592
1901-02	2,537,573	2,364,701	172,872
1902-03	2,768,990	2,575,244	193,746
1903-04	2,911,763	2,880,007	231,756
1904-05	3,071,036	2,786,353	284,683
1905-06	3,006,663	2,880,432	126,231
1906-07	3,538,260	2,768,705	769,455
1907-08	3,480,592	2,834,117	646,475
1908-09	3,558,002	2,949,179	608,823
1909-10	3,660,156	3,053,857	606,299
1910-11	3,694,521	3,110,134	584,387
1911-12	3,980,052	3,174,883	805,169
1912-13	4,411,217	3,301,928	1,109,289
1913-14	4,713,159	3,531,867	1,181,292
1914-15	4,680,909	3,754,268	926,641
1915-16	4,680,969	3,754,268	926,701
1916-17	5,155,624	3,549,912	1,605,712
1917-18	5,063,879	3,784,838	1,279,041
1918-19	5,346,507	3,988,300	1,358,207
1919-20	5,843,600	4,071,100	1,772,500
1920-21	5,945,200*	....	....

* The figures for the earlier years as shown in the published accounts are so mixed up with extraordinary Grants that we have not seen fit to append the earlier figures. In the above table the figures for 1919-20 are revised Estimates, while those for 1920-21 are for Budget Estimates. All figures are in sterling, convered up to 1892, at the old conventional rate of Rs. 10 equal £ 1, and thereafter at the new conventional rate of Rs. 15 equals £1.

Year.	Direct Receipts.	Land Revenue.	Minor Works.
1901-02	1,554,576	813,397	164,598
1902-03	31,816,268	814,393	138,329
1903-04	1,920,030	837,139	154,594
1904-05	1,994,331	893,250	183,455
1905-06	1,869,156	893,779	168,728
1906-07	1,342,231	1,006,951	189,049
1907-08	2,208,014	1,040,523	232,045
1908-09	2,247,624	1,091,044	219,334
1909-10	2,307,077	1,117,388	235,691
1910-11	2,288,051	1,178,005	228,065
1911-12	2,381,533	1,351,465	247,054
1912-13	2,607,478	1,538,245	265,494
1913-14	2,765,916	1,614,374	262,819
1914-15	2,758,490	1,667,864	254,615
1915-16	2,737,991	1,773,720	267,368
1916-17	3,011,227	1,827,108	317,266
1917-18	2,990,581	1,768,895	304,403
1918-19	3,132,500	1,937,300	332,400
1919-20	3,224,950	1,959,000	326,000

Year.	Major works. Working.	Interest	Minor. Works.
	£.	£.	£.
1901-02	701,920	944,123	718,658
1902-03	754,610	969,105	851,529
1903-04	810,751	994,235	875,021
1904-05	875,281	1,015,224	895,848
1905-06	899,823	1,041,456	941,153
1906-07	944,632	935,231	888,842
1907-08	1,004,009	980,912	849,196
1908-09	1,036,589	1,058,711	895,263
1909-10	1,094,211	1,115,410	900,935
1910-11	1,109,621	1,182,867	885,103
1911-12	1,145,103	1,282,513	846,913
1912-13	1,168,440	1,304,846	850,975
1913-14	1,214,443	1,409,529	928,889
1914-15	1,289,393	1,454,350	882,104
1915-16	1,374,920	1,451,350	882,104
1916-17	1,351,194	1,413,205	755,513
1917-18	1,404,487	1,515,595	864 756
1918-19	1,409,900	1,540,200	1,30,200
1919-20	1,418,100	1,663,700	1,089,300

The tables above show the details of the public Irrigations Works, both Major and Minor, productive and protective. In a proper appreciation of these figures it is necessary to bear in mind the different characteristics of the different works. The Productive Works are those of a remunerative character undertaken in the interests of general agricultural development of the country. Both their first cost and any subsequent expenditure on extensions and improvements are met from Loan Funds. Protective Works are those, which, although not directly remunerative to the extent which would justify their inclusion in the class of productive works, are constructed with a view to the protection of the tracts liable to frequent famines, affording a relief in the periodical expenditure on famine. The cost of these works is charged gainst the current revenues, generally met from the annual grant for Famine Relief and Insurance. Minor Works comprise those Irrigation and Navigation works, not classed as Productive or Protective and agricultural works undertaken for the general improvement of the country. The Outlay is met from current revenues. When any works of this class cost more than 50,000 Rupees, both capital and revenue accounts are kept, provided it is estimated that their revenue would pay the working expenses. There are 121 such works, with a total capital outlay of Rs. 665 Lakhs, and a surplus of 40½ Lakhs in 1916-17. We may sum up the general position of Irrigation by saying that the total area irrigated from Public Works of all kinds exceeded 26 millions acres being over 13 % of the total cropped area in British India; that it has cost the State by way of capital outlay on these works Rs. 71,24,00,000 in round figures, yielding a net revenue of over 5 crores from the Major Productive Works; that the value of crops raised in a single year has been estimated at Rs. 92 crores nearly or the whole capital outlay and a quarter over again.*

* The following extract from the report of the Indian Industrial Commission (1918) is illuminating "We cannot do more than indicate very roughly the extent to which the development of irrigation by mechanical methods may ultimatly be carried and the following observations are only intended to convey some notion of what is possible. There are at least 3 million wells in India from which water is lifted for irrigation and the number of men and cattle employed on this work is very large. The Indian irrigation Commission of 1901-3 reported that the area under wells was not less than 16 million acres and they remarked "It may not be too sanguine to look forward to a period when the area under welli rrigation may through out have been doubled". Since this opinion was expressed mechanical methods of lifting water have improved from which water can now be profitably raised is at least twice what it was 15 years ago. This enormously increases the volume of underground water which can be tapped and consequently the area which ought to be brought under irrigation. Within the last few years fully 1,000 pumping stations have been established in the South of India and the number is large enough to warrant the general conclusion that mechanical methods of lifting water for irrigation can be employed in India on a very extended scale. Even if no more than 5% of the wells used for irrigation the use of small mechanically driven pumps were practicable, and the area under well irrigation developed to the extent the Irrigation Commission anticipated, this would mean an employment of about 300,000 pumping sets at an initial capital outlay of something like 30 crores of rupees with annual working expenses of probably not less than 6 crores and with the result of very large gains to the cultivators" (Para 88).

PROGRESS OF BIG WORKS.

The Statement shows the progress made in the development of Major Works (Productive and Protective) during the last 30 years :—

Year.		Mileage of Channels. Main Canal	Distribution.	Capital. outlay of 1 year.	Capital outlay to end of 1916-17	Net Revenue	Area Irrigated.
		Miles.	Miles.	Lakhs. of Rs.	Lakhs. of Rs.	Lakhs of Rs.	Thousands of Acres.
1887-88	.	5,571	17,524	62	2,575	88	5,769
1888-89	..	5,542	19,996	54	2,629	101	6,555
1889-90	..	5,650	20,308	36	2,675	109	7,041
1890-91	..	6,165	21,399	58,27,33	2,733	124	7,177
1891-92	..	6,282	22,315	81	2,941	127	7,560
1892-93	..	6,620	22,541	60	3,002	139	7,066
1893-94	..	6,687	23,277	76	3,080	125	6,953
1894-95	..	6,746	23,800	65	3,148	129	6,193
1895-96	..	6 753	24,313	74	3,226	126	7,955
1896-97	..	6,139	25,475	79	3,309	201	10,173
1897-98	..	6,857	26,018	74	3,387	238	10,246
1898-99	..	7,186	26,971	79	3,457	222	9,858
1899-00	..	7,168	27,431	74	3,554	231	10,918
1900-01	..	7,836	28.1	68	3,652	250	10,922
1901-02	..	8,012	25,740	94	3,744	244	11,648
1902-03	..	9,187	26,738	90	3,951	274	11,832
1903-04	..	9,228	27,331	76	4,031	284	13,008
1904-05	..	9,440	27,659	120	4,163	293	12,641
1905-06	..	9,456	27,350	166	4,336	282	14,676
1906-07	..	10,430	28,755	183	4,583	351	13,551
1908-09	..	10,665	29,590	203	4,795	327	14,286
1910-10	..	10,843	30,541	219	5,030	335	14,469
1910-11	..	11,029	32,357	232	5,271	339	14,252
1911-12	..	11,398	33,165	286	5,568	344	14,163
1912-13	..	11,769	32,257	273	5,110	378	15,258
1913-14	..	12,272	33,165	278	6,089	436	14,649
1914-15	..	12,366	34,155	252	6,338	475	15,243
1915-16	..	12,574	34,800	198	6,535	460	16,054
1916-17	..	12,782	35,635	124	6,666	508	17,438

In round figures the Productive Major works have cost 57 crores, the Protective works 7 crores and the minor works have cost 6.5 crores in all over 70 crores. The

total gross revenue is nearly 10 crores while the net revenue is nearly 6.5 crores the percentage of net revenue to total outlay being over 7 % the net profit to the state being about 3 crores. Reckoning from 1887 the total net revenue in the 30 years have more than paid off the total capital outlay on these works.

LXXII. FUTURE OF IRRIGATION FINANCE.

Provinces.	Crores.
Madras ..	.. 15.71
Bombay & Sind	.. 9.80
Bengal.. ..	.. .40
Bihar	.. .88
Punjab ..	.. 7.21
United Provinces	.. .15
Punjab ..	.. 8.75
Central Provinces	.. 6.61
Baluchistan ..	.. 1.73

These handsome results do not however, suggest that we have come to the end of our programme of Irrigation works. Taking only the Projects now under Investigation the estimated additional outlays is over 51 crores of rupees for wells and minor work and 45 crores for mechanical appliances like pumping sets. The total irrigation needs of India may be estimated to fall not much short of Rs. 100 crores which would add about 20 million acres to the irrigated area, and over 100 crores to the value of the crops. This estimate, it may also be noted, is entirely independent of any other developments in canals *e. g.* for navigation purposes. The whole of this sum cannot be spent out of revenues, though, if the programme were properly distributed over a period of 10 years the total annual charge would perhaps not exceed Rs. 10 crores—a sum which may with little difficulty be found from the current revenues if the suggestions made in the foregoing chapters of the present section were adopted. If, however, the annual charge on current revenues is limited to Rs. 5 crores, and the remaining 5 crores found out of monies borrowed by the agriculturist from a state guaranteed Land Bank, there ought to be no difficulty in financing these projects. And, if, in proportion as the revenue from the works grows, the loan operations are curtail-ed or allowed with more advantageous conditions, the net burden even by way of interest charge ought to prove insignificant.

RAILWAYS IN INDIA.

LXXIII. HISTORY OF INDIAN RAILWAYS.

The Railway enterprise in India may be said to date from 1845 when private ssociations were authorised to start the lines from Calcutta to Raniganj (120 miles) by the East Indian Railway Company; Bombay to Kalyan (33 miles) by the Great Indian Peninsula Railway; and Madras to Arkonam (39 miles) by the Madras Railway Company. These companies, however, soon found that it was impossible to raise the necessary capital without some sort of a Government Guarantee, and it was feared that the projects might have to be abandoned if no guarantee was forthcoming. On their side the Company's Government were appreciating the advantages from a military standpoint of linking up the chief centres in India by rail; and they were thus not unwilling to listen to projects of railway enterprise, if necessary at some cost to the Government. In a great lengthy minute of 1855 Lord Dalhosie, the then Governor-General, pointed

out the immense political, strategical and commercial advantages expected from Railway lines linking up the principal cities of India; and to that end drew up a comprehensive scheme of trunk lines to link up the Presidency towns and the inland centres with one another and with the ports. The Board of Directors appreciated the value of the scheme mapped out by the great Pro-consul, his arguments being driven home soon after by the Mutiny when the absence of rapid means of communications was severely felt.* It was assumed, not without some justice, that the ignorance of the nature of the venture would prevent the Indian capitalist from undertaking these projects; while it was clear that English capital would not be forthcoming in sufficient quantities in the absence of some guarantee of return.† The Government, therefore, offered a guarantee of a minimum return of 5 % per annum on the capital invested, in addition to giving freely all land required for the construction of the permanent way the stations, the sheds, sidings, etc. The interest was to be paid from the date the capital was subscribed; and, in order to elimminate the uncertainty of Exchange, it was agreed that the proceeds from the revenues were to be converted into sterling at 22d. per rupee, and that interest on the guaranteed capital was also to be paid at the same fixed rate ‡. The Government retained the right of sharing equally with the companies the surplus profits whenever they exceeded the guaranteed minimum, so that if the total profits amounted to 7 %, 5 % would go to the companies as the guaranteed minimum and the remaining 2 % would be shared equally, Government getting one per cent out of 7 % of revenue, and the Companies getting 6%. The companies were bound at the end of 25 years to sell their railways to the Government on fixed terms, while

* It is a curious point to note that while almost all the railways in England have been conisdered exclusively from the stand point of commercial gain, without much regard to the military factor in alignment and construction, in India, the military factor has never been absent and in some cases as those of the Frontier Railways it was the dictating factor. It is a proper question to ask in discussing Indian Railway Finance whether the accounts of the two ought not to have been kept apart, whether different treatment was not necessary from the beginning.

† That the first companies got excessively advantageous terms can be shown from the free grant of all lands added to the guarantee of 5 % The following extract from the evidence of Thornton before the Parliamentary Committee of 1872 is interesting:—I do believe ungaranteed capital would have gone into India for the construction of railways had it not been for the guarantee. Considering how this country is always growing in wealth and that an immense amount of capital is seeking investment which it cannot find in England and goes to South America and other countries abroad, I cannot conceive that it would presistently have neglected India." (Dutt op. cit. p. 354).

Strachey op. cit. p. 121, summarises the total public works account thus:—

	£.
Total Guaranteed Railway capital	97,728,000
Gross receipts therefrom	12,065,000
Net receipts therefrom	5,495,000
Interest charge	4,599,000
Net Government Receipts after payment of all interes	337,000

II.

	£.
Total State Railway capital	26,689,000
Gross receipts therefrom	2,175,000
Net receipts therefrom	602,000
Net charge after paying interest	608,000

III.

	£.
Total Irrigation capital	17,086,000
Gross receipts	1,357,000
Net Receipts therefrom	927,000
Net income after interest	76,000
Total capital outlay	142,223,000
Gross receipts	15,597,000
Net receipts	7,021,000
Interest charge	7,219,000
Net charge on exchequer	195,000

during the currency of the guarantee Government were to exercise close control over the operations in India.

It is clear from this review that the terms were excessively unfavourable to the Government. Once the principle of guarantee had been introduced no capital would be invested in the railways without such a guarantee. And the guarantee once given there was no incentive to the companies to economise. Whether it was the inexperience of the engineers, or the indifference of the companies, or the incompetence of Government officers who were to control the operations of the companies, the fact remained that the guaranteed railways were for a long time a white elephant on the Indian Exchequer.* The Government were by no means the last to realise the costliness of the Indian Railway system, and Lord Lawrence decided in 1869 to construct new railways directly by the agency of the State from funds obtained by borrowing or from current revenues. In order to construct the State Railways on a cheaper basis a narrower guage of 3″-3″ was adopted as against the 5′-6″ guage of the guaranteed companies. The additional charge involved by way of interest on borrowed capital was considered by the Government of India reasonable price for the tax-payer to meet in view of the advantages of the Railway system. The following table taken from Strachey's "Finances and Public Works of India" indicates the progress made in this direction upto 1880.

N. B.—The figures are in thousands sterling:

	Guaranteed Railways				State Railways				Total †
Year.	Cap.	Int.	Net Revenue.	Net Charges.	Capital.	Gross Receipts.	W. E.	Int.	N. C. on Ry. a/c
1868-9 ..	79,168	3,878	1,966	1,912	553	13	30	10	1,929
1869-0 ..	83,911	4,126	2,618	1589	744	8	9	30	1,620
1870-1 ..	87,689	4,342	2,557	1,888	1,193	8	9	40	1,909
1871-2 ..	90,183	4,542	2,877	1,721	1,838	4	8	61	1,796
1872-3 ..	90,631	4,608	2,554	2,215	3,252	17	11	115	2,324
1873-4 ..	91,354	4,618	3,211	1.529	5,606	40	46	168	1,703
1874-5 ..	92,442	4,644	3,455	1.244	8,620	131	86	284	1,483
1875-6 ..	93,393	4,638	3,729	992	11,785	290	193	410	1,305
1876-7 ..	94,108	4,659	4,433	278	14,651	272	283	530	710
1877-8 ..	95,431	4,655	5,397	675	18,636	549	421	664	139
1878-9 ..	96,445	4,705	4,023	740	21,964	966	734	918	1,426
1879-0 ..	96,794	4,708	4,924	110	24,644	1,549	1,215	1,058	614
1880-1 ..	97,728	4,599	4,936	337	26,689	2,175	1,573	1,210	271
								Total ..	17,238

*The late Mr. R. C. Dutt has collected a large number of extracts from the evidence of the highest officers of the Government of India before the Parliamentary committee of 1872-4 to show the wastefulness of the Guarantee system. See India in the Victorian Age p. 354 et seq. The following is however too emphatic to be omitted here. In a minute dated August 16th, 1867, Sir. J. Lawrence the Viceroy wrote. "It is estimated that while the companies will have to supply 81 millions for the railways now under construction the Government contribution will be 7¼ millions for land, loss by exchange and supervision; 14½ millions for interest paid in excess of net revenues; and 4¼ millions in interest paid on those payments of guaranteed interest." Dutt. op. cit. p. 358- 9.

† In the above statement Cap. Capital. Int.—Interest. N. R. —Net Receipts; N. C. Net charge G. R.—Gross Receipts, W. E.—Working expenses.

On the combined railway account this gives a toal capital out lay £124,417,000 and a total loss of nearly £17 Millions sterling in 12 years. * We may here close the first stage of the history of Indian Railway Finance (1845-1880). During 35 years of intermittant activity about 9891 miles of railways had been constructed at a total loss of nearly 25 Million sterling. The Guarantee system was proved to be wasteful in the extreme and the alternative of direct State agency was substituted. The loss involved in the new policy was demonstrably not greater than the loss involved in the Guarantee system. But even assuming the loss as a fast diminishing quantity it could well be treated as a resonable charge on the tax-payer for the facilities obtained. †

LXXIV. SECOND STAGE OF RAILWAY FINANCE 1880-1900.

Though the moral and material progress report of 1873 had declared :—

> " Railways are now almost completed so that with the cessation of very heavy outlay on construction the financial position may be expected to improve."

Yet the possibilities of new regions being opened up went on making continually increasing demands on the revenues and credit of India for the purpose of Railway extension. The new policy of direct construction through the agency of the State received soon after its inception a serious set back. The Government of India were obliged to borrow in the London market whatever their needs; and the heavy famine and war charges in the decade 1870-1880 made it impossible to depend only on the funds that Government could conveniently spare for railway construction in view of the great advantages of a large railway system. ‡ For military reasons many railways originally started on the metre guage by the State had to be converted into broad guage at a tremendous loss. On the other hand a reversion to the policy of inducing private capital to take up railway enterprise in India was becoming more than ever difficult, as the Government were anxious to curtail their obligations in sterling as much as possible owing to a continued fall in the value of the rupee. A Committee of the House of Commons had found in 1879 that the prosecution of Productive Public works would necessarily proceed very slowly if reliance were placed exclusively on

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* The above figures work out an average cost per mile of Railway in India at £ 12 577½ a cost far in excess of the English Railroad construction when we consider that (1) in India the Railway companies have had a free grant of all land required and (2) that they have had no preliminary expenses such as the English Railway companies have had to undergo in obtaining Parliamentary sanction. If all the land taken by railways upto 1881 is included the capital cost would increase by at least 25 Million or which would raise the cost to £15,000 per mile.

† For a long time the loss on exchange was the most important factor of the deficit in the Railway budgets. The Welby Commission found that the Railways would have been profitable much earlier and certainly in 1894-95 if exchange were anywhere near the agreed figure or even near 1s. 4d. The charge on exchange alone ate up all the profits from 1885-1899 See para 198 et seq. of the Majority report.

‡ After declaring that the expenditure upon Railways and irrigation works: "Though not remunerative in the aggregate has upon the whole been beneficial to India and that although considerable sums have been wasted and certain profitless schemes undertaken, the policy of continuing to borrow for the productive public works may within the limits and restrictions hereinafter laid down be continued" they then proceeded to indicate the limits which they fixed at 2½ millions pounds a year. They advocated the substitution of rupee borrowing for sterling loans. This amount of 2½ millions a year was of course to be in addition to any amount required for the purchase of any railway company and any money found or loaned for the purpose by the Native states. Any unexpended portion of any year's grant may also be regranted in the following year in order to prevent waste involved in hasty construction.

the funds borrowed or spared by the state ; and they had therefore suggested that the construction of Public works, chiefly Railways, from borrowed capital by the state should be limited to 2.5 million sterling a year, leaving the rest if required to be provided by private companies. * The Secretary of State in forwarding the recommendations of the Committee of the House of Commons laid down :—

"The question of constructing new Railways is to be considered on commercial principles. No new line is to be undertaken unless there is good prospect of its proving remunerative, that is to say, unless it can be fairly calculated to pay, within a minimum limit of five years from the date of the Line being open for traffic, 4 per cent on the capital invested, including therein all arrears of simple iuterest incurred upto that date, and also the capitalised value of the land revenue and of leave allowances and pensions."

The whole question of Railway policy under the two alternatives of state construction V. private enterprise was discussed at length in the financial statement of Sir. E. Baring 1881-2. As under the orders of the Secretary of State issued in pursuance of the recommendations of the Parliamentary committee of 1879, construction by the state from borrowed funds was limited to a minimum of £ 2.5 millions, and as the possibilities of a railway extension were evidently great as shown by the repeated requests of the Indian and English chambers of Commerce,† the invitation to private enterprise was unavoidable. Lord Cromer recognised the limits to the powers of the State in India in view of the fact that (1) the available capital for investment in Railways was limited and (2) shrinkage in the value of the rupee had made the Government of India naturally reluctant to add to their sterling obligations beyond what they could not help. Besides, even granting that the State could and should find funds for construction, there was the undoubted difficulty that there was no means of ascertaining independently the commercial possibilities of a programme put forward by the Government. The Public Works Department preparing the project could naturally be not expected to emphasize the weak points; while the absence of any engineering talent outside Government service would make any independent criticism out of the question. The Central Finance Department would naturally be powerless to prevent all possible waste or to offer independent criticism. On the other hand he fully appreciated the difficulties of private enterprise. He was too good a

* Up to 1880 certainly and possibly upto 1900 no one in India seems to have appreciated the importence of Railways as means of industrial development by means of preferential rates as they did in Germany They thought of railways only (1) as means to transport food stuffs and thus relieve distress in time of famine (2) to aid in the movement of goods and thus add to the volume of the foreign trade of India as to faciliate the transport of troops and munitions. Thus Strachey said in the Financial statement of 1880-81 " It is an unquestionable fact that the railways and railways alone were the savation of the situation in Northern Bihar during the famine of 1874 and that they have again been the salvation of the situatiion in Madras during the famine of the present year". Again the famine commission of 1880 said: Until the whole country is more completely supplied with railways or canals by which food can be transported rapidly cheaply and in large quantities to every part where severe want may exist, the possibility of some unusual demand for Government interference cannot be shut out"

† In the financial statement of 1884-5 Sir A. Colvin observes :—" But if the new undertakings promise so well where is the necessity for a Government guarantee? One can understand Government coming forward in the infancy of a railway system when everything as regards the future is in a state of complete uncertainty and offering special inducements to the investors. In the case of India, however, the experimental stage is past. Experience has demonstrated the paying (sic). character of the Indian Railways and at the present time specially when the great difficulty is not to find capital for sound and profitable undertakings but to find proper outlets for capital. Private enterprise ought surely to be sufficient to supply India with Railways she needs. The system of granting guarantees has created a wrong impre ssion that without a guarantee the venture was too risky. Now however that the Chamber of Commerce both here and in India are urging the fact that the railways are a paying concern as a reason for the state committing itself further to their construction the idea that they are investments in volving so much more than the ordinary risks that a Government gurantee is essential should be exploded " It would be impossible to accept all these remarks in the light of the known facts of the case without question but for the underlying vein of exquisite satire on those who without themselves risking anything, could yet urge the Government to further exertion in railway construction.

follower of the Laisez-faire school not to realise the disadvantages of a private Railway company which would in the nature of things necessarily have a monopoly. The palliatives of private monopolies supervised by the State for the safety of passengers; and its power to fix the maximum rates, the right to pur chase the whole undertaking after the agreed term, combined with the general power of supervision over construction and maintenance would, he could not but admit, go a long way in minimising the abuse of monopoly. It was characteristic of his time and training to feel, that as the Railways were likely to be profitable to private investors the latter would employ their profits more productively than the State. Apart from the unfortunate experience of Frontier Railway construction during the Afghan war there was no reason to assume that the State would employ its savings or profits less productively than the private entrepreneur. The need to economise or to employ its surplus productively is all the greater in the case of the state, which is constantly on the look out to grant relief in taxation and to take up other more advantageous projects. Baring did not, moreover, perceive clearly the other advantages of private enterprise (1) At the time he was discussing the question, practically all the most profitable region of India had already been tapped by the guaranteed companies. The new promoter must necessarily feel that for him was left at best only second rate traffic to develop. Consequently even if private enterprise in India had been willing to take up Railway construction the conditions of the day must unavoidably have acted as a deterrent. Besides (2) a number of private railway companies competing among themselves for traffic would inevitably lead to cut-throat competition, intense and destructive rate war which would be to the advantage of no party whatsoever (3) And in this summary of the difficulties in the way of private enterprise he takes no account of the graver problems of (*a*) the conflict between capital and labour; (*b*) the question of preferential tariffs for selected trades or industries; (*c*) the chances of speculation and (*d*) the danger of political corruption even the apparent from the example of the United States. Then as now the only proper conclusion seems to be State enterprise or subsidised and controlled private company which could, after a given period, be purchased by the State.*

* The first option to purchase a railway company was exercised by the Government of India in the case of the East Indian Railway Company in 1880. The purchase was carried out by creating an annuity as provided by the contract for 74 years in favour of the company equal in capitalised value to the amount of their share capital taken at the average price during the three years preceding the purchase. The price was settled at £ 125 for £ 100 stock and the interest was taken at £ 4-6-0 per cent for calculating the annuity. The capial being £26,200,000 an annuity of £ 1,473,050 was created giving the capitalised value at £ 32,750,000. The Debentures of the Company amounting to £4,450,000 were also taken over by the Government. But the working of the Railway was again leased to the company by one fifth of the purchase money being left with the Secretary of State and a proportionate amount being deducted from the annuity On this sum a 4 per cent interest was guaranteed out of the revenues of the railway. The net receipts from money being left with the Secretary of State and a proportionate amount being deducted from the annuity the line after paying all expenses including a contribution to the provident fund were next subjected to thee deductions:—(1) The amount paid by the S. S., on account of annuity (2) The guranteed interest to the working company (3) interest on debentures and (4) interest on all monies advanced by the Secretary of State for working the line. He was also to supply all needful capital for the extension of the line beng paid interest as stated above. The exchange in either case was to be at 22nd the rupee. By this transaction Government secured a net again of 25 lakhs in the following year (Cp. Financial Statement of 1879-80) The other companies similarly purchased were Beyond the evils of obvious inflation of stock and surrendering a part of the future profits under the working lease, this agreement was not objectionable.

1.	Eastern Bengal Railway	1884
2.	Sind Punjab and Delhi	1885-6
3.	Oudh & Rohilkhand Railway	1888
4.	South India Railway	1890
5.	Great Indian Peninsula Railway	1900
6.	Bombay, Baroda and Central India Railway	1905
7	Madras Railway	1907

In view of these difficulties once again recourse had to be had to another Parlimentary committee (1883) which reported in 1884. This committee suggested that the old distinction between productive and protective railways should be abolished, the Railways needed for the development of the country or for the protection against famine being constructed out of the Famine Insurance grant. In any case the bulk of the railways should be self supporting. Moreover in place of the existing policy of providing what could be provided from the public revenues, the committee suggested that a careful forecast of futurer equirements must be made before-hand, and then expenditure on railways alone should be so arranged as to be within the means of the Government consistently to be maintained. The Government of India had suggested a programme for the next six years which the committee found moderate and promising a fair return; but they negatived the Government suggestion that £ 200,000 out of the Famine Insurance grant be hypothecated towards the interest payable on £ 11.25 million railway capital. Such a diversion of the famine grant would, they thought, be entirely outside the scope of that grant. They permitted however the limit fixed in 1879 to public borrowing for this purpose to be raised from 2½ crores to 3.5 crores of rupees, leaving the responsibility of the amount actually to be borrowed each year on the Secretary of State. In any case they declared their emphatic opinion that the future extension of railways in India should not be at the cost of additional taxation. *

Following the committee's recommendations the policy of making a three years programme in advance was introduced, the programme of 1885 being a little hampered by the Frontier scare. The second triennial programme in 1889 contemplated an annual outlay of 2.5 crores which was modified in 1890 so as to include half of the unspent Famine grant, while in 1892 another additional ½ crore was allowed. In 1895-6 the committee's recommendations seem to have been utterly abandoned as a three years' programme costing in all 29.67 crores was framed and sanctioned. This programme did not include the borrowing by companies which had received no guarantee. Guaranteed companies were, however, precluded from borrowing. This ambitious programme had to be considerably modified owing to famine and frontier troubles as also the next programme of 1899-1901 for 22.33 crores.

During the period (1880-1900) two new experiments in Railway finance were commenced which deserve notice. Four unaided private companies were promoted. The Nilgiri Railway, the Delhi Umballa-Kalka Railway, the Bengal-Central and the Bengal-North-Western all of which, however, came to grief. The fist became bankrupt; the second and the third had to receive guarantee and the fourth could be kept alive only by leasing the Tirhut Railway to it. The second experiment was to try and induce the Native states to take up Railway construction The Nizam's Government guaranteed the interest on 330 miles of railway within

* See the financial statement of 1885-6 for a summary of the committee's recommendations.

the State of Hyderabad which relieved the Government of India from considerable strain. By the end of the century 3,000 miles of railway were constructed in the Native states under any one of the various arrangements sketched above. *

In 1893 was introduced the new expedient of the Rebate system to attract private capital. Instead of a minimum guarantee of interest payable in gold, companies were offered a rebate on the gross earnings of the traffic interchanged with the main line, so that the dividend might rise to 4 per cent. on the capital. As the new lines in most cases were branch lines the system of rebate naturally suggested itself, but the rebate was limited to 20 per cent. of the gross earnings. Under this system three important lines were promoted. The Ahmedabad Prantij, the Southern Punjab and the South Bihar Lines. † The competition of the four per cent. Trustee securities made the rebate terms unattractive and they were further modified in 1896. An absolute guarantee of three per cent was given; and in addition a share of surplus profits or rebate upto the full extent of the main line's earnings in supplement of their own net earnings, the total being limited to $3\frac{1}{2}$ per cent on the capital outlay.

LXXV. THIRD PERIOD OF RAILWAY HISTORY 1900-1920.

The practice of making triennial forecasts had now become established, and it was found that the steady tendency towards increasing the programme led to a much greater strain than the finances could bear. A Committee appointed in 1907 reported that no definite limit could be assigned at the present time to the amount that could be remuneratively devoted to the development and extension of the Indian Railway system; and that apart from the existing lines, improvement of which was continually demanded, there is wide scope for the construction of new lines which would not only be remunerative in themselves, but would add materially to the prosperity of the population, greatly enhance the revenue, and largely develop the resources of the country.‡ With this view of the possibilities of Railway development in India it was inevitable that every effort be made to push on the enterprise. There was now no danger from a steadily falling rupee as the arrangements of 1898-99 had helped to fix the rupee at Rs. 15=£ 1. The revenues had for a series of years been showing a surplus, and the spokesmen of India were almost silenced by substantial remissions of the Salt duties and Income Tax. Above all, the railways had definitely turned the corner. For the first time in 1900 they showed a clear surplus after meting *all* charges including interest.§ Owing to the extension of Irrigation Works in the Punjab and Sind, the great North Western Frontier Railway had ceased to be the Cinderella of the Indian Railway System and was become one of the most important grain lines of the world, choked with

* Robertson's report on the Administration of Indian Railways 1903. At the persent time the Native States Railway mileage totals 8400 miles.

† The Barsi Light Railway was started about this time on a 2'-6" guage to show the posibilities of that guage in the poorer countries. At the present time there are over 2,690 miles of such light railways in addition to about 100 miles on still smaller 2' guage.

For a summary and criticism of the terms offered under the arrangements of 1895 see Robertion's report, para 132 et seq. He seems to be in favour of reversion to the guarantee system.

‡ See cod. 4111 of 1908.

§ The profits have been continuously increasing except in 1907-08.

traffic at certain seasons of the year. The same tendency of rapidly increasing traffic both passengers and goods was observed everywhere, and the revisions of the contracts added substantially to the gains of the Indian Railways. But the same factors which led to an increase in the receipts, also demanded considerable increase in capital expenditure. Costly works were necessary to double the track, improve equipment, provide better yards and terminal facilities, and increase the rolling stock. New demands for additional capital outlay were coming a much for improvements in the existing lines as on the new branch lines or feeders. The Government modified their concessions to branch construction in June 1910, offering an increase in the rate of guarantee from 3 to 3½ per cent; of rebate from 3½ to 5 per cent. and an equal division of profits when they exceded 5 per cent Lines of purely local importance, which, however, would serve to develop the districts where they were constructed, were encouraged to be constructed by the District Boards wherever their revenues were in a sufficiently flourishing condition to allow such construction. Madras is yet the most conspicuous province for the extension of this enterprise.

LXXVI. THE PRESENT FINANCIAL POSITION OF RAILWAYS IN INDIA.

The following table shows the financial position of the Indian Railways in the 20th Century. With the single exception of 1908-09, the Railways have worked at a profit in all these 20 years, and during the War they showed a phenomenal increase in profits.

Year.	Total net Receipts.	Total expenses.	Net income.
	£.	£.	£.
1900-01	9,827,917	9,502,793	325,124
1901-02	10,733,634	9,887,016	846,619
1902-03	10,306,669	10,077,740	226,949
1903-04	11,179,708	10,319,039	660,669
1904-05	12,727,028	10,621,590	1,105,438
1905-06	12,924,420	10,922,454	2,001,966
1906-07	13,001,227	10,667,686	2,313,541
1907-08	12,499,331	10,936,329	1,563,002
1908-09	9,968,041	11,200,291	1,242,250
1909-10	12,445,378	11,650,456	624,922
1910-11	13,861,461	11,863,965	2,017,496
1911-12	15,891,725	12,103,955	3,787,770
1912-13	17,371,789	12,868,455	4,803,354
1913-14	17,625,634	12,836,101	4,789,533
1914-15	15,799,149	13,641,115	2,158,034
1915-16	17,085,639	13,810,252	4,075,438
1916-17	21,216,062	13,733,187	7,481,875
1917-18	24,047,723	14,133,399	9,914,320
1918-19	25,243,000	14,049,600	11,193,400
1919-20	21,221,000	14,317,800	6,904,000

All outlay had, however, to be curtailed during the War, and to some extent, therefore, the Railway Budget in the first peace years must show very considerable outlay. The fact that the net returns were fluctuating, and sometimes disappeared, led one Finance Minister to describe the Indian Financial system as a "gamble in rains and railways." But though the railways must depend for their prosperity on rains and are not self-supporting in the same sense as irrigation works are, we may now safely say that the Railways in India are a considerable source of revenue to the Government. The net revenue, it must also be noted, is not quite to be taken at the figures it stands, as the expenditure here includes not only interest but a part payment back of the capital, disguised in the form of annuities. The real income is likely to be considerably more. Already most of the railways in India are state property. When the few remaining ones are acquired, when Indian Industries have developed to their utmost, it may not be unreasonable to expect a net revenue of 50 crores a year at the lowest estimate. The following table shows in greater details the working of the State Railways.

Year.	Gross Receipts.	Working Expenses.	Interest on Capital	Sinking fund & Annuities.	Net result* to the State.
	£.	£.	£.	£.	£.
1900-01 ..	16,953,797	8,465,712	4,014,772	2,357,101	619,449
1901-02 ..	19,277,228	9,492,334	4,184,527	3,055,750	1,154,583
1902-03 ..	19,137,656	9,627,211	4,295,369	2,999,218	451,617
1903-04 ..	20,576,591	10,378,158	4,441,781	3,004,620	1,114,550
1904-05 ..	22,900,337	11,295,437	4,608,297	3,009,333	2,265,535
1905-06 ..	23,629,545	11,669,728	4,854,914	3,013,737	2,277,676
1906-07 ..	25,821,298	13,275,061	5,039,965	3,018,262	2,560,366
1907-08 ..	27,296,944	15,078,834	5,243,208	3,023,393	1,970,401
1908-09 ..	26,799,688	16,913,089	5,635,946	3.427,623	1,204,768
1909-10 ..	26,923,931	16,536,801	5,653,551	3,522,914	642,709
1910-11 ..	30,629,756	16,787,641	5,842,334	3,528,898	2,030,193
1911-12 ..	33,579,129	17,745,049	6,279,070	3,534,978	3,808,928
1912-13 ..	36,686,364	19,391,729	6,683,164	3,542,109	4,825,914
1913-14 ..	37,546,135	20,013,602	6,887,842	3,571,288	4,705,888
1914-15 ..	36,105,167	20,376,709	7,814,441	3,557,219	2,272,550
1915-16 ..	38,176,192	20,290,504	7,923,670	3,584,584	4,641,626
1916-17 ..	45,947,521	20,749,751	7,660,850	3,681,297	7,548,508
1917-18 ...	41,964,600	20,566,466	6,057,209	3,691,100	9,937,460
1918-19 ..	51,053,930	25,810,930	8,185,100	3,600,400	11,126,400
1919-20 ..	53,381,930	32,240,000	8,455,200	3,613,100	6,883,700

Though the net account of the Railways shows an increasing profit, it must be observed :—(1) that the rate of profit is, in the best year so far, still below

The net income to the state shown in the last column is taken after deduction of all other charge or interest payable to companies on deposits etc.

four per cent. on the total capital of £ 295 million; and (2) though the total receipts show a favourable margin over total expenditure a very ambitious pro gramme is apt to swallow all, perhaps, of the surplus.

GUARANTEED RAILWAYS.

Year.	Net Traffic Receipts.	Interest.	Net result.
	£.	£.	£.
1899-00	1,907,915	2,180,895	617,080
1900-10	1.316,899	1,597,594	451,727
1901-02	914,989	1,016,514	249,228
1902-03	946,182	1,035.218	171,594
1903-04	941,463	1,048,017	208,620
1904-05	1,074,814	1.063,619	168,922
1905-06	921,975	1,041.308	245,558
1906-07	398,801	584.751	227,652
1907-08	226,615	580,368	363,492
1908-09	961	......	13,704
1909-10	48	..	..

As the above table shows the guaranteed Railways now ceased to be of any importance in Indian Finance. As soon as an old Guaranteed Company is purchased by the State, its accounts come under the State Railways, which thus show a corresponding increase. While the old arrangement lasted the net traffic receipts, brought into the accounts of the Government of India, were those earnings of the railways which remained after defraying the actual expenses of operating. The net result to the State is not, however, the difference between the net Traffic Receipts and the guaranteed interest, but includes the cost of land, supervision and the surplus profits paid away to some Railway Companies. The next table gives in a concise from the financial position of the Indian Railways since 1909. (The figures are in thousands of rupees).

Year.	Gross Earnings	Total Working Expenses.	Net Earnings.	percentage of 3-5	Total capital.	Miles Open.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1909	47,06,38	26,38,48	20,67,90	4.81%	429,83,20	31,490
1910	51,14,22	27,15,72	23,98,50	5.46%	439,04,73	32,099
1911	55,27,92	28,83,92	26,44,00	5.87%	450,03,80	32,839
1912	61,65,07	30,15,92	31,49,15	6.77%	465,15,00	33,484
1913	63,58,56	32,93,04	30,65,52	6.19%	495,08,64	34,652
1914... ..	60,42,01	32,74,10	26,67,91	5.33%	519,22,13	35,285
1915	64,66,06	32,91,95	31,74,09	5.99%	529,98,29	35,833
1916	70,68,42	33.40,32	37,28,10	6.96%	535,27,97	36,286

N. B.—Up to 1912 the figures are for Calender years from 1913 they are for financial years.

The next table shows the liability of the State in regard to the total capital outlay, which of course includes the purchase price of the old guranteed Companies.

IN THOUSANDS STERLING.

Statistics :	1915-16	1916-17	1917-18	1918-19	1919-20
State Railways :—					
Capital Expenditure to March 31st. Expenditure by Government ..	£. 237,571	£. 239,446	£. 243,517	£. 247,827	£. 264,203
Expenditure by Cos. ..	18,794	28,900	27,858	27,957	29,287
Outlay on the E. I. Ry. From debentures raised by the Company ..	18,064	18,064	18,046	18,246	18,248
Outlay on the S. I. Ry. by the Co.	3,809	3,809	3,309	3,309	3,309
Outlay on the B. B. and C. I. Ry. by the Co. ..	1,093	1,093	1,093	1,093	1,093*
Outlay on the G. I. P. Ry. by the Co.	3,253	3,253	3,253	3,253	3,253
Total ..	252,567	294,549	297,078	301,487	319,192
Miles open on 1st April.	36,369	36,433	36,572	36,471	36,491

LXXVII. CRITIQUE OF THE INDIAN RAILWAY POLICY.

Twenty years ago, even ten years ago, the railway policy of the Government of India used to provoke considerable critism, as on a net total account, the Railways showed a deficit † Since the beginning of this century, however, the Railways, as already observed, have turned the corner; and so the sting seems to be taken out of the chief criticism against them. People are apparently more willing now to admit the advantages ot Railways to the commerce as well as to the revenues of the country, and less inclined to find fault with or exaggerate the weak points of the Railways administration of the past.‡ In a work of this kind, however, we cannot afford to lose sight of the perspective. Viewed in their proper

* The figures against this line include contribution by the Jaipur Darbar towards capital on the Nagda Muttra Railway as follow:—
400,000 466,667 566,667, 566, 667 566,667

† It was estimated before the Welby Commission that the net total loss to the State on account of the Railways since their inception had amounted to Rs. 51,84 crores by 1806. Possibly the total net loss by the end of this century and including the loss in 1908-09, would not exceed Rs. 60 crores. The net income since 1900 would exceed the loss thus incurred.

‡ See the Minute of Lord Dalhousie 1853 and the moral and material progress report of 1873 (already quoted) see also the evidence of Sir A. Cotton before the Parliamentary Committee of 1872-74.

proportion the past errors, if any, and the present advantages, such as they are, appear to be no more unusual than can be expected under the circumstances. In this section, therefore, we shall briefly set out the chief points of criticism against our Railways and their Finance, and estimate their real benefits to the country.

THE LIMIT OF RAILWAY EXTENSION IN INDIA.

At one time it was thought that after the Government of India had helped to construct the chief trunk lines, linking up the principal centres of inland trade with the sea ports, there would be no need for further outlay on Railways which would cause the tax-payer anxiety, beyond. of course. the necessary expenses of the maintenance and improvements of the lines already constructed, and possibly their branches.*

The famine Commission of 1880 considered 20,000 miles of Railways all over India to be quite sufficient for the purposes of commerce as well as Famine Relief. Lord Curzon ambitioned to have at least 25,000 miles of regular track. † The idea that there would be some predestined limit to the extent of railways needed by the country was first assailed some 60 years after the commencement of Railway enterprize in this country. The Committee of 1908 ‡ was the first official body definitely to pronounce that no limit could be assigned to the extension of the Railways in India beyond the natural restriction of available capital. And truth to tell, the idea of a predetermined limit seems to be absurd in the case of an enterprize which must necessarily expand with the expansion of the industry and Commerce of the country. Any estimate made, and limit assigned, in any given years, on the basis of trade needs then existing, is bound to be exceeded or prove inadequate a generation later when the expansion has been found to be much greater than was anticipated. § Besides in the case of Railways, they being themselves the most powerful factors in the opening up of the country, the calculation, if made without any allowance for the effects of a projected line, are certain to be upset by the effect turning round and becoming the cause.

While, therefore, we cannot determine the extent of railway requirement of a country by its population or trade statistics at any given date: while we cannot say that India ought to have three times the railways mileage of the United States because her population is at least three times as great, or that she should have one-fourth of the railway mileage of the United Kingdom because her total volume of foreign trade is one fourth that of England ; we must at the same time abandon the hope of assigning a definite limit before hand which would be quite

* Before the recently appointed Acworth Committee on Indian Railways, the bulk of the Indian public opinion, judging from the published extracts from evidence, seems to have been in favour of rapid additional construction. The pendulum seems to have swung round from the days when the annual protest against Railway expenditure was as regular an item in the Budget discussion as that against Army expenditure. The explanation is to be found in the greater earning power of the railways combined with the growing force of the commercial interests. For this point cp. in particular, the evidence of the Indian Merchants' Chamber and Bureau.

† cp. Lovart Fraser's "India under Curzon and after." It was among the first twelve objectives held before his mind's eye by Lord Curzon that the Railway mileage in India be raised to 25,000.

‡ Comd. 4111 of 1908 already referred to.

§ In this connection one might cite with advantage the Railway Experience in the United States, especially in opening up the Middle and far West.

adequate for all time to come, or even for a generation. At the present moment, for example, we seem, in spite of our thirty six thousand odd miles of railways, * to want considerable railway extension to link up Burma with India and open up Burma; to link up Delhi, the Capital, with Karachi, the nearest port by a direct broad guage line: to connect the meter guage systems of the Northern and Southern India; to join up India and Ceylon by a Railway Bridge. This programme if carried out might mean anything from 5,000 to 10,000 miles more at a probable cost of not less than 50 crores. And even this programme may have to be exceeded, long before it is completed, by the possibility of a good commercial railway from Baluchistan or Agfanistan to Persia, and thence, through Mesopotamia, to Egypt, and, through Asia Minor to Turkey and Europe.

But while we must give up the idea of setting a rigid limit in advance to the total construction, we might yet criticise the individual projects from a financial stand point. Not all the railways of India have been constructed wisely or even economically. The North-West Frontier Railway was for a long time a white elephant, and in all probability would have continued to be a source of heavy drain but for the opening of waste lands in the Punjab by means of the Punjab irrigation works. The much desired direct broad guage connection between Karachi and Delhi—whatever its political expediency might be-is likely to be a source of considerable loss, running as it must through the desert tracts of Rajaputana. The railway through the Khajak and Bollan Passes has been constructed at such a heavy cost, that the critic might well say the whole line " has been ballasted with Rupees" Examples of this natures can be multiplied to an alarming extent. They all show that mere **Commercial considerations have not exclusively influenced railway** construction in India. There is no need to deny the Military and political necessity and importance of the Railway. There is no occasion to assert that no railways should be constructed for other than commercial reasons. Considering, however, the railways as a commercial proposition, and admitting the underlying hypothesis that sooner or later they are expected to pay all charges in connection with them, the critic of the Indian Railway system might well pronounce against them. Those railways, at any rate, which are resonably expected to bear all their own charges, may be constructed from borrowed funds; but the attempt to construct those railways, also, which there is no reasonable ground to hope will pay their own charges in a reasonable time, from borrowed funds is apt to involve the whole railway policy in an unfavourable and unnecessarily indiscriminating criticism. If the Military and Political railways have to be constructed, let them be frankly shown to be a net charge, and not a possible source of revenue. Any unexpected profit—as in the case of the North West Frontier Railway—may be treated as a windfall or may be earmarked for similar other projects. The suggestion, therefore, which in the past used frequently to be made, that all necessary, but productive railways should be constructed out

* This does not represent the total miles of railways available in India. This is the length of single track. Including double track and sidings the total Indian mileage would not be much short of [illegible]0,000.

of the borrowed funds has even now not lost all its importance. And it would be a great improvement in our Railway finance, if all military or political railways are charged to the Military Budget entirely. *

2 The point may indeed be well urged against the entire railway policy of India that the mad haste to construct railways have rendered the authorities in India utterly blind to the possibility of **alternative means of communications**, which being cheaper, would be more suitable to Indian conditions. It has been said that in England the canals have a past but no future. The rivalry of the Railways has killed the inland navigation in England. But we in India cannot afford always to follow the example of England in such matters. In England canals have ceased to be important not only because of the ruthless railway competition, but also because the rivers are small and relatively shallow, and would not admit of large ocean going vessels sufficient water to navigate. In India our rivers are long, broad, deep, flowing, at least in Northern India, through a plain which would require no very great cost to maintain. Besides, for our inland and coasting trade at any rate, the average size of the vessel is by no means so great as to be inadmissible for river navigation. If navigation canals had been constructed in Northern Western India wherever there are now railways, India might possibly have escaped half her present public debt at the same time that the facilities to trade would have been as great and more suitable. The bulk of Indian trade consists in the movement of raw materials and food stuffs—bulky articles which would certainly find railway rates more burdensome than water carriage †

3 Then again it is always more profitable to run railways when there is a large load in a single consignment, with long distance haulage than if the train load has to be made up by small bits of traffic collected in driblets at innumerable small stations.‡ The waste of railway stock alone that is necessarily involved in such a method is enough condemnation of the costly-even though more rapid

* It is not among the least of the offences of military finance in India that many items, truly military, are not shown in the military Budget proper *e. g.* Interest and Railways.

† This suggestion was made among others by the late Mr. Gokhale in his evidence before the Welby commission, though his line of reasoning seems to be different from the line adopted in the text above. He felt that the depressed condition of Indian Finance, coupled with the fact that India had already (1897) got the most important lines completed, suggested that the heavy programme of further construction must really have been undertaken under pressure from the English merchantile classes and not in the true interests of India. Perhaps this criticism would not be sustained if aimed at the general railway policy of India, though at the time he was speaking, and in cases of individual projects even later on, the criticism had more than a grain of truth in it. It stung because it was true. Sir D. E. Wacha suggested that the railway account be kept altogether separate, as under that system new projects would be more likely to be considered on their true commercial merits than by secret wire-pulling; and that further borrowing necessitated by such projects would depend more on the possibility of the venture itself than on the ability of the tax payer to bear the interest charge. The evidence before the Welby commission of these two gentlemen on Railway finance is very instructive. The Mackay committee of 1918 recommended a triennial programme of Railway construction costing Rs. 12 crores and suggesting that the required funds be obtained by diverting a part of the rupee coinage profits which went to the Gold Reserve Fund. The recommendation is obviously objectionable and the Chamberlain commission on Indian currency and Finance has definitely pronounced against it. It is now of no practical importance.
It is now of no practical importance.

‡ Water carriage is so much cheaper than Rail that it has been estimated that a ton of goods costs as much to carry from the Cape to Southampton by sea, as it would be to carry the same load from Southampton to Manchester. It stands to reason, since on the waterways—whether on the ocean or even on the river—there is no outlay necessary for the construction and maintenance of the permanent way, at least as compared to similar outlay on the railroad. The outlay on Locks, docks warehouses harbour works dredging etc. would all be more than set off by the railway outlay on stations sheds and sidings.

means of communication.* Now in India the average size of a consignment is much smaller than in England, and infinite by smaller when compared to the average consignment in the United States. Railroad transport is cheap only on a large scale. The development of road transport is now far more promising—after the advent of the motor lorry—in India with its small consignment and short distances, than Railway transport could ever have been expected to be. Yet in spite of the obviously better alternatives, there is so far no indication that the Government is alive to the possiblities of road or water carriage. The suspicion seems unavoidable that the vested interest of the railways would not permit any alternative means of communication to be developed, if it is at all likely to threaten the profits of the railways. And the danger of this enormous vested interest is all the greater, because it forces the contrast or conflict of interest between the state and the community too painfully to escape notice or avoid criticism for a long time. One may, of course, easily understand why the State in India with its enormous capital outlay liability, and its one good asset the railways, should be unsympathetic towards any suggestion likely to upset their results of patient painful labours in connection with the railways. But assuming that there are great possibilities of an expansion in traffic; and assuming further that it is possible to classify traffic so that the railways are assigned the heavier or more valuable traffic which can bear higher rates, removing for the alternative means of communication the more bulky, but less paying traffic, there is no good reason for the State in India to look askance even now at any suggestion for diverting the energies of their transport department to other channels in place of the railways. †

4. In spite of these disadvantages it has been claimed that railways have proved of the greatest possible advantage to India economically speaking. Appeal is made to the increase in the value of imports and exports, to the growth of traffic on the Railways, and the amount of earnings of the railways. When however we analyse the trade or traffic returns: when we study the details of Indian exports and Imports, the opinion seems to be not at all unreasonable or unfounded that the Indian Railways have done nothing to foster the Indian Industries and develop the Indian commerce in the right direction. It has been the common and most deplorable feature of the foreign trade that we export chiefly raw materials for foreign manufacturers and foodstuffs, while we import manufactured articles from abroad. The railways have, if anything, intensified this undesirable feature of our foreign commerce. Admitting that the fixing of railway rates is an extremely complex question, and that the ascertainment of the ultimate effects of any particular rates on the total commerce of a country is too difficult for clear

* It is a well known experience that it pays better in America to have long trains, huge waggons and powerful locomotives because of single train loads available in such huge units in that country. In England on the other hand the relatively smaller consignments collected from a number of places, necessarily make railway facilities dearer than in America, and yet the profits of the railway companies are much lower than in the states. In India of course there can be no comparison (see Acworth's Railway Economics).

† Strachey calculates the advantages of railways to the Indian people by pointing to the difference in the cost of transport by carts and that by rails. As an economic argument it is worthless or only invites the retort that the saving would have been much greater if instead of railways our waterways had been developed to the same extent, since water carriage is ever so much cheaper than rail carriage See the evidence of Sir Arthur Cotton before the Parliamentary Committee already referred to.

observation, we may nevertheless observe, that railway rating has an important effect on a country's industrial developments. * While some railways in India have been restrained no doubt by the fear of competition from water transport or from coastal shipping, on the whole the tendency of railway rates has been to divert traffic from one Indian port to another, rather than to make a careful examination of the effects which the rate imposed would have on the total cost of conveying the goods to their ports of foreign destination, and therefore, on the ability to comete with products from rival sources. Within India, also, the rate seems to have been so arranged as to afford special facilities for raw materials to be conveyed to a port for export. † It is no doubt true that exportable materials being in large quantities admit of considerable economies, from the standpoint of the railways in the use of rolling stock, haulage charges, terminal expenses etc. and that therefore railways can quote better rates, without intending any undue preference for one class of traders against another or for Europeans against Indians. But until the railways, no less than the Government, accept the fundamental principle that in future the country's efforts would be directed towards bringing raw materials to the most finished state possible before export, there would be difficulties and discontent against any rates that the railways might charge; and our industry cannot be said to benefit from the railways as much as it is entitled to. The Industrial Commission has laid down the principle that Railway rating so far as it affects industries must be such that internal traffic should be rated as nearly as possible on an equality with traffic of the same class over similar distance from the ports; ‡ and though this principle must admit of several exceptions it is the only safe guide if Indian industrial development is to be the first consideration of the railway administration in India. §

(4) The foregoing criticism is based entirely on general considerations of the governing policy in connection with the railways. Points of detail, even when

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* The Acworth Committee of 1921 has been appointed to investigate the question of state V. Company management of Railways. The Terms of Reference however could if they would admit of their discussing the alternative means of Transport, especially as any suggestion of alternatives would mean regulation of traffic; and that in its turn would mean a much more effective state control than is the case to-day. With the exception of Sir A. Cotton of irrigation fame, there has been hardly any officer of distinction during the whole period of British Rule in India who had advocated water carriage for this country, at all corresponding to the inland water communications of France or Germany. Cotton was of course an enthusiast and offered to link up all important centres in India by water, if sums spent on railways were turned over to water transport. See his evidence before the Parlimentary Committee already referred. Replying to Mr. Lloyd Cotton explained the apathy towards water carriage on the ground of jealousy of the railways. The one defect of monopolist state enterprise under existing constitutions is that it renders the state lethargic and often interested on the wrong side. When it fancies its interets attacked the monopolist state can be as obstinate and unreasonable as any private capitalist. Thus though the Prussian state railways were once the admiration of the world, it had latterly come to be observed that that Railway administration was averse to introducing the most upto date facilities or comforts on the score of cost, and that it had therefore lagged behind. If that could be said of the Prussian Government the remarks in the text about the Indian Government cannot be considered at all unjustifiable.

† In Germany, France, Belgium and Austria Hungry Railway rates were powerful weapon for industrial protection or special developments. Thus in Germany, to develop the colonies all exports of agricultural implements were rated equally as per space or weight thus giving an advantage to the exporter of bulky materials occupying a lot of space, though of little weight, if charged at his option according to weight. As early as between October 1884 the Railway Council in Germany were instructed to observe the following principles in charging rates. State Railways should grant preferential tariffs (a) to assist agriculture and industry by granting cheap rates for raw materials or subsidiary materials, (b) to assist German manufacturers in competition with foreign importers at home and to assit German export trade abroad; (c) to assist german ports in competition with foreign ports; (d) to look after the interest of German Railways and waterways in competition with those of foreign nations; (see appendix 4, page 316. of Kirkaldy and Evan's history and economics of transport) In India the railways commenced as famine relievers, were continued as military or political adjuncts and are developed as necessary aid to foreign commerce. They have not to be regulated as an important engine of industrial development.

‡ An excellent monograph on Indian railway rates has recently been published by Mr. S. S. Ghosh who puts forth the railway case very vigorously.

§ The Industrial Commission (para 371) mentions the case of the rates on raw hides which are 50 per cent less for ports than the internal rates thus handicapping the Indian leather industry.

they are not irrelevant, suffer from the great disadvantage of being inapplicable except at a given moment. Besides criticism in detail is often directed against accomplished facts, and as such has the additional demerit of being ineffectual. We have of course no desire to minimise the importance of such criticism. Contemporary politics would be impossible if points of detail merely because they are details, are to be rigorously excluded. But in a general exposition, such as is attempted here, it would be undesirable to attach too much importance to details, if for no other reason, because such a course would be likely to make the reader or the student lose the sense of proportion. We shall, therefore, barely content ourselves by a bare mention of those points of details, which, indeed must have been telling in their own day, but which now seem to be somewhat stale. (a) Thus the whole system of guarantee may be condemned not because no guarantee was at all necessary but because the high guarantee actually given, inevitably involved wasteful construction, besides burdening the Government with a heavy interest charge over a long period. and thereby precluding them from taking advantage of any subsequent improvements in their credit and the consequent possibility of easier borrowing. (b) With the single exception of the Indian Railway Company the repurchase from the Guaranteed railway companies was not effected on the first expiry of the contract. The renewal of such contracts even when they were quite favourable to the Government, may well be said to have unjustifiably alienated substantial portion of the public revenues for private benefit. (c) The price paid on repurchase to the companies was in every case on the unjust basis of the market value of the stock at the date of the purchase, which was, therefore naturally inflated to the prejudice of the Indian Government.

Apart altogether from the wastefulness engendered by the original guarantee system. this display of generosity by the Government of India cost the tax payer from one fourth to one third more of the capital acutally invested, and the assets really obtained for the money by the Government. While the contracts lasted the companies had been afforded every concession that the temerity of the promoter could demand. and the influence of the Directors with the Government of India could secure* (d) The system of crediting the profits every half year was another spacious advantage of the kind which might well have been protested against by the spokesmen of Indian public opinion. (e) The present system of releasing the railway, even after its acquisition by the Government of India from an expiring company, is still a ground of strong criticism against the policy re: the railways. But as that point is more closely connected with the larger question of the Nationalisation of the Railways in India we shall reserve it for discussion in the next section.

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* The Government of India in their ill balanced Budgets lately, have committed the stupid mistake of increasing in effect the railway rates on such important industrial requirements as coal and coke. At the time of writing there is actually a coal famine in Bombay, and the Bombay mill-owners suspect the Government of nefarious motives in thus unwarrantably handicapping their great industry. If Government were only in need of revenues—and the Railway rates were the only means to increase their revenue—why not levy a surcharge on all Rail-borne traffic proportionately? In the absence of such a policy Government cannot but invite suspicion as to their ulterior motives.

LXXVIII. RAILWAY NATIONALISATION IN INDIA.

The question of nationalisation of Railways in India has quite a different signification in this country from what it usually has in England or the United States for example. Our Railways have practically all been constructed by Government funds, either by guaranteeing private capital when first it was invited for railway investment, or by direct borrowing by the Government for such purposes. At the present time since the old guaranteed companies have all been bought out in a sense our Railways are national property; and from the financial stand-point they make handsome contributions to the public purse. But the question of Nationalisation nevertheless occurs in India as in other countries though not in the same form, because of the prevailing system of releasing the systems for working by the companies themselves on payment of a portion of the profits, and the consequent evils of an absentee Board of Directors fixing a policy of Railway management not always in the true interests of the country; the inevitable conflicts between the Government Department—the Railway Board—told off to look after the Railways and the actual managing authorities of the railways; the complaints of the traders about undue preference to some and obnoxious rates; the complaint by the employees about unfair treatment and a number of other kindred evils. The subject was raised in the Imperial Legislative Council five years ago by an Indian member, himself now a member of the Bombay Government. It was suggested that on the expiry of the present working leases the Government should take over the management as well as ownership of these railways, which should in future be conducted as a public department of state. The Government have invited public opinion on the matter, which is thus at the moment of writing still under consideration. * The stock arguments of the state being unfit to conduct such a department, in spite of seventy years of blunders and experience, are heard in this country as much as in the United Kingdom. in addition to the more responsible apprehensions, voiced by some thinkers, about the impossibility of realising all at once the different ideals and mutually destructive benefits expected from state mangement. We are told, for example, that if the Railways are to be conducted in the hands of the State as a Revenue concern it would not be possible at the same time to obtain low rates for the trader and better wages for the employees. If Revenue is not to be prime consideration, then the State, we are told, seems to have made the best possible arrangement from its stand-point by leasing the working to the companies. Expert knowledge is obtained at relatively insignificant cost to the Government as represented by that portion of the profits which are paid over to the managing company. The Government, moreover, escapes the inertia which would, so it is urged, undoubtedly follow if they became the managers as they are the owners of the railways. Notwithstanding the force of these arguments it cannot but be felt (1) that the present arrangement of leases obviously costs the Government a share of the profit, and

* The practice of choosing Railway Directors from retired high officers of the Government of India even now quite common.

the Directors' fees which might well be an addition to the public revenues. The additional work on the Railway Board will be very little if the management is taken over along with the ownership, and the possibilities of a more national outlook would be much greater. (2) The apparent conflict of interests between the Railway employees if turned into public servants, and the general trading public is, though not entirely unreal, still a distant contingency in India. When it does occur there is nothing to prevent special legislation to guide the employees in such services of Public Utility, as they have done in the United States and in the Dominion of Canada, and thereby minimise the chances of a conflict which would result in serious losses to the public. Complete abolition of this possible danger is out of the question so long as Nationalisation is adopted in one branch of a country's industrial life only; but we can help by such legislation to reduce the occasions of conflict and to lessen its intensity when one actually occurs. (3) The conflict of interests between the tax-payer and the trader, is as far as we can now see, likely to be more serious. The Indian Railways are now a paying concern, and everybody expects them materially to assist the Exchequer in the future. The Railways are also recognised to be excellent weapons of affording substantial, though disguised, assistance to local industries. It is more than probable that the demand for a readjustment of the railway rates in India so far as to favour the local trader would in the immediate future assume a very serious shape. The state management of Railways would naturally make the demand more intense and less easily appeasable than if the railways were managed by the Companies. Readjustment of rates which would not take into account even the cost of operating might conceivably involve some loss and consequently the expected relief to the tax-payer might be substantially reduced. This is indeed a serious contingency. But the differentiation between the tax-payer and the trading public is not quite accurate, and the assumption based on such a differentiation may quite possibly not work out in practice as per expectations. Besides, the railways are likely to add to their profits by reduced rates or readjusted rates, rather than lose, as much from an inevitable expansion of business, as from the higher charges on selected articles intended to be discriminated against. The Indian Railways cannot yet be said to have reached what in economic theory would be called the limit of working on the principle of increasing returns. There are possibilities of considerable reductions in the working expenses in getting the fullest service from the men and materials engaged; and, therefore, the assumed conflict, even if it does take place is, likely to afford a solution not at all hostile to the principle of state management of our Railways. On the other hand it is too patent a fact to need any laboured arguments to support it that a truly national policy in Railway management is not to be expected so long as we have the Boards of Directors located in a place not amenable to the authority of the Government of India; so long as the custom of selecting Directors from among the influential retired public servants of India continues.* Whether it is the question of the treatment of the third class passengers, who

* The Acworth Committee, already referred to, was appointed in 1920-21 to investigate and report upon the question finally.

provide the Bulk of the passengers traffic and also the greater portion of the earnings on that traffic, or it is the question of the treatment of Indian labour in the railways, or the adjustment of rates for the benefit of Indian traders, or the provision of efficient well-equipped workshops and factories in India for the supply of Railway plant and material, our Railways will not afford the full benefits, direct and indirect, that might be ligitimately expected from them unless they are State managed. This aspect of the case outweighs in our opinion all the conceivable disadvantages of state management, even if every one of them should materialise. We have yet to learn to look upon the Railways as something more than military convenience and commercial facilities; something in addition to a source of revenue to the state and employment to a considerable section of the population. And this wider purpose of the railway will not be accomplished with private management and absentee directors, with indifference to public interests and insolence to the travelling public. Adopting such an attitude as regards the existing railways we would of course support the suggestion that all further construction should be carried out directly by State agency without an intermediary to create a powerful vested interest which might conceivably be difficult to deal with at a later stage.

On the whole then we must pronounce in favour of a policy of Railway Nationalisation in the sense in which it is applicable to this country. The Railway finance in the future, if properly handled, would not only afford surplus revenues sufficient to construct the additions absolutely necessary; but also to provide enough margin to undertake the necessary irrigation or navigation canals in aid of or as a relief to the Railways. This is altogether besides the indirect advantage of the Railways to-day in providing industrial technical training and experience in assisting the trade and industries of the country, in developing parts which are yet undeveloped. It would be a considerable relief to the public Exchequer in the construction of Railways if the policy of encouraging local bodies to build their own local railways on a less ambitious scale out of their own resources on their own credit is developed considerably more than it is at present. The grave problems of social reforms which have already made their appearance in crowded cities like Bombay or Calcutta, where national interests demand imperatively that congestion should be remedied at the earliest opportunity, the construction of light railways or tramways would prove an indispensable adjunct of the reform movement. But it would be an unjustifiable waste of public resources if such construction is handed over to private Companies uncontrolled by the Municipal or District authorities, and would involve a lamentable, because avoidable, inequality in the distribution of wealth which sooner or later would bring dire consequences in its wake. Out of the possible present requirements of 50 crores for additional necessary construction it is not an exaggeration to say that 12½ crores to 15 crores at least can be provided from local funds over a series of 10 years, if only the local authorities were properly to develop their local powers of taxation and borrowing and the exploitation for their own benefits of their local resources. Besides, under

such an arrangement the local bodies will judge for themselves and would be obviously more competent to make a suitable decision as between the possible alternative means of communications; a new light railway, a navigation canal or a fleet of motor lorries on improved roads in the light of local conditions. The resources would thus be economised in the best possible manner with the chance of the greatest possible benefit.

The question of separating the Railway Budget from the general finances of the Government of India would, if realised, add materially to the rapidity and expense of construction. It seems unlikely, under the existing financial position of the Government of India, that such a consummation would be reached in near future. But even if it were accomplished, and new railway construction were to be judged on the collective result of the existing enterprise, we would still consider it advisable not to hasten construction until the alternative means of transport have been fully considered.

CHAPTER VIII.

OTHER SOURCES OF REVENUES IN INDIA.

LXXIX. The Importance of the question :—The need for Additional Revenues:—

After this brief examination of the existing sources of Public Revenues in India, we may now turn to the consideration of possible additions to these revenues in case of emergency. The problem, however, demands at the very outset a consideration of the question as to what, if any, is the need for additional revenues in India at the present time. Since at any rate the commencement of this century, Indian Finance has on the whole shown a creditable record, in which, despite some mistakes of policy or misunderstanding of ideals, the two sides of the national balance sheet have fairly generally blanced, leaving, if anything, a favourable marging on the whole.* Apart from the War period and its necessary additions to the tax burdens, there was a marked tendency in the earlier years to a reduction in taxation † in consequence of the disappearance of the main dangers of the Indian Financial System, which were so conspicuous in the last quarter of the preceding century. We have now very little to fear from the bogey of Famine not because we have yet succeeded in abolishing famines in India, but because, with the provision already made, famines as such have ceased to command that attention or excite that apprehension which they used to do in the last century. Famine Expenditure is still a considerable drain on the Indian Exchequer, all the more serious because it is so uncertain; but thanks to the scheme of Famine Insurance, and the measures taken in cosequence, thanks to the extension of Irrigation Works, and, to a smaller extent, of railways, neither the loss of life nor the other evils of the now ancient Famine history of India need be dreaded in all their intensity. The fall in silver, again, which was such a portentous phenomenon in the closing years of the last century has not only been arrested, but at the present moment, is causing considerable gain to the Government of India in their Home Charges.‡ Provision, therefore, for additional re venues to meet

* Since the commencement of this century there have been only four years of deficit and sixty years of surplus. According to the Public Accounts the total surplus during the periodamounted to £58,466,365 while the total deficit amounted to £11,062,241 leaving a net favourable balance of £402,765. The ordinary deficit during the War years is also included in these figures. If we include the deficits of 1919-20 and 1920-21, which were caused mainly by the Exchange fiasco, the favourable balance would be reduced by one-third.

† The conspicuous reductions in taxation have taken the form of (a) reduction of salt duty by stages from Rs. 22 a maund to Re. 1 a maund (b) the raising of the limit of the income exempted from the Income Tax. (c) The discontinuation of Provincial Rates; (d) the decline in the Opium Revenue.

‡ This gain seems to be a temporary one, unless it proves that the recommendations of the latest Currency Commission are adopted and carried out successfully, and the rupee definitely fixed at 2 gold value. If it be believed that the present appreciation in the gold value of the rupee is caused chiefly by war conditions it would be yet premature to say that the new basis would prove any more permanent than those that have preceded. This phase of the Policy of the Government of India is at present exciting the bitterest criticism, as, indeed, has always been the case as regards the Currency Policy of the Government of India for now nearly half a century. Since the above was written the 2/- basis has again broken down and the rupee has fallen lower (March 1921) than at any time since 1818. The dessipation of their sterling resources by the Government in the mad hasto to give the rupee a gold basis in 1920 forbids them now (March 1921)) to adopt the only measure which can restore exchange even the £1=Rs. 15 level.

possible loss in Exchange is no longer needed. The uncertainties of Opium Revenue, too, need not disturb the present day Finance Minister, as that source of Public income has already gone, and the revenues have now been adjusted to meet the loss. The normal growth of existing sources of revenues seem to be quite sufficient to meet all possible demands on the Public Purse, assuming, of course, that the general principles of Public Expenditure, the accepted ideas are not changed. *

The investigation into this problem of additional sources of revenues seems, at first sight, to be a little academic at best. We cannot, of course, set about such an investigation merely on the theoretical question whether or not India is comparatively speaking lightly or heavily taxed. The question † has had its importance at a time when the ingenuity of the Indian Finance Department was much exercised to make good the increasing loss caused by the continued fall in the value of silver, combined with a war scare and recurring Famines. But to-day even supposing that India is relatively lightly taxed, there is hardly any financier of standing or reputation who, on that ground alone, would suggest a serious investigation into this question. It is, indeed, the mark of prudent financing to be prepared for contingencies and to provide some untapped reserves. In the old days the Finance Minister could always fall back on the Income Tax, on the License Tax, or the Salt Duty, to meet a sudden emergency, which it was considered unadvisable to finance by borrowing. But to-day we are not considering any of these as exceptional sources of public revenues to be utilised only in the event of serious necessity. Though, as the war experience has shown, there is room for increase in the rates, and consequently in the yield of these taxes, it is nevertheless, true to say that they have become permanent features of our Tax System and, as such, cannot be considered in the light of a reserve. Forty years ago when the Strachey brothers published their work on Indian Finances and Public Works, they could well urge that as there was no productive sources of revenue in Indian Financial System, the question of additional sources of revenue had more than a purely academic importance, though even then they were optimistic enough to believe that the ordinary revenues were sufficient for all ordinary demands upon the Exchequer.‡ To-day it could not be quite fair to say that

* We have deliberately left out the military factor. Wars are not yet quite banished from human history and the two First Peace Budgets of India give no indication of any changed attitude in this matter in quarters that count in India. Mesopotamia and Afganistan are frought with immense possiblities for mischief at the hands of the Indian Jingoes. But still, if the League of Nations is realised we believe the war fever will subside even in India though it would take time—perhaps longer than elsewhere. The latest Budget (March 1921) and the explanation of the military advisers of the Government of India leave no hope of an altered angle of vision of our bureaucracy.

† Comparisons about the relative heaviness of the tax burdens are, as a rule, misleading, if not, futile. If we divide the total revenues of India by total population we would get on astonishingly low figure of average tax burdens borne by each individual. To get a more accurate idea we must ascertain the relative income or ability to bear the tax, which in India is very low, as also the figure of tax actually falling on each individual. Even if we can make accurate calculations on these points, it would be difficult to ascertain the real extent of the sacrifice involved in the payment of the taxes and consequently such comparisons would serve no useful purpose in practice.

‡ Optimism is an indispensable qualification of the Anglo-Indian Financier who knows that the people of India would easily be frightened by a show of pessimism. It is difficult accurately to say in terms of £ s. d. what would be the total requirements of India if all these objects were to be attained. If we allow 40 crores a year for education and sanitation, 15 crores a year for redemption of agricultural indebtedness for agricultural improvements, 10 crores a year for extension of Irrigation, navigation and other transport facilities, and 15crores at most for interest and sinking fund on the new productive debts incurred or guaranteed by the Government for the Industrial regeneration, we have to face additional requirements of about 70 crores a zar. It is reasonable to expect economy or retrenchment in the existing Civil Expenditure of Rs. 5 crores and military expenditure of Rs. 20 crores. This would leave Rs. 50 crores still to be provided for by dditional taxation and new sources of revenues.

the Indian Budget gives cause for apprehension owing to the absence of any productive sources of revenue, owing to the absence of elasticity in the revenue system as a whole.

The real reason, therefore, why we should be at all justified in starting such an enquiry, is to be sought in a change of financial ideas. We have progressed since 1880, and our conception of the duty of the State has altered in the interval beyond recognition. We have definitely accepted, or we shortly must accept even in India, the taxing power of the State as a great weapon of Social Reform and Industrial Assistance. We look to the state to recast our entire education system, and increase its expenditure proportionately: we demand from the State substantial aid in combating disease and poverty, in fighting the chronic indebtedness of the Indian Agriculturist, and overcoming the apathy o ignorance or inexperience of the Indian Trading and Industrial Classes. We expect Demonstration Factories and Experimental Farms at public expenses We seek a better, healtheir, more equitable distribution of the national wealth by means of wider extension of public or collective enterprise; and until the ideal is realised by means of tax adjustments, a more equal measure of sacrifices for the public needs. We try to utilise the powers of taxation in fighting evil habits or customs which are injurious to the individual, and through him to the race or the community, until we have so far educated public conscience as to make at least the majority recognise the necessity of absolute prohibition of deleterious consumption, or complete abolition of harmful customs. Under the circumstances, investigation into the problem of new taxes or wider additional sources of public revenues, has a vital importance on the future wealth and happiness of the community as such.

LXXX. THE POSSIBLE SOURCES OF NEW TAXATION.

If we compare the Indian Tax System with any European or American System of taxation, with a view to find out what sources of taxation are yet untried in this country, we would discover many which are quite unknown, and have, therefore, been pronounced unsuitable for this country. It is true the difference in conditions governing Indian Society from those governing European or American Society explain to a large extent the absence of those branches of the tax system which in other countries are so productive. As a rule however, the assumption is quite empirical that because a tax is unknown it would therefore be unsuitable as well, or more plausibly, because the conditions of orthodox Indian Society rendered the experiment undesirable from a political point of view 50 years ago, that, therefore, the same apprehensions should be entertained even if the Indian Society has admittedly changed in the meanwhile. Given the necessity or justification for an investigation into the possible additional sources of revenue as above, we shall, however, proceed first to discover new taxes, those being the obvious, orthodox methods of raising public revenues, and think of other alternative or concurrent sources of income, without assigning undue weight to such hypothetical

considerations of suitability as may have had their justification in the past, but do not, on reflection, seem to have the same justification to-day.

(a) NEW TAXES ALREADY PROPOSED IN THE PAST.

In the Strachey Brothers' work, already referred to, taxes are mentioned which, in the opinion of the authors, might well be resorted to in financial emergencies without the burden proving appreciably hard or without their incidence disturbing the national industry. Some of their suggestions, like the one relating to IncomeTax, have no great importance to-day, as those suggestions have passed the stage of being considered extraordinary sources, and are embodied as permanent features of our tax system. On the other hand other suggestion, like the one relating to land rates, must now be approached from a different standpoint altogether. As the authors anticipated, educated India * now considers the Permanent Settlement of Bengal, and the consequent inequality in the burdens of taxation in the different provinces as an institution which stands in need of radical modification in the interests of the community at large. But the most appropriate mode of modifying the permanent settlement would be rather by means of an extension of the Income Tax to these incomes than by any system of Land Rates, as proposed by the Stracheys. For it is not inconceivable that rates on land may be actually shifted on to the tenant, and the Zamindar might still escape the burden of the tax. Such rates, moreover, would have to be necessarily made moderate, while the Tax on Incomes may be made to follow the exisgencies of the moment more easily. If we assume that the untaxed income of the Bengal Zamindars amounts to Rs. 20 crores a year † which, as much by its size as by the ease with which it is acquired, might fitly be taxed at an average rate of 25 %, the total increase in the Income Tax would from this source alone amount to Rs. 5 crores. And if that is not quite enough to secure equality of sacrifice, a succession duty may be imposed on the same class of people to add another Rs. 2½ crores a year to the Exchequer. There are landlords also in the United Provinces, in Madras and the Central Provinces and in the Punjab; and though their assessment was not originally quite so liberal as that of the Bengal landlords, they too have escaped their just burdens of the national requirements. Altogether it would be a modest estimate to say that the Income Tax, coupled with a succession duty, affecting great landed property, with a rental exceeding Rs. 5,000 a year and at a rate varying from 5% to 33 % ought to yield at least. Rs. 10 crores more to the revenue without in the slightest degree proving burdensome.

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* "The time will inevitably come when the intellgent portion of the community in the rest of India will appreciate the fact that in consequence of an arrangement ignorantly made nearly a century ago the richest class in the richest province of the Empire bears far less than its just share of public burdens; that the other provinces, all of them comparatively poor in natural resources, are therefore paying several millions a year of taxation from which they could otherwise be exempt, and that, what they lose from this arrangement the people of Bengal do not gain. When this is understood and admitted, except by the Zamindars in Bengal itself the application of the needful remedies would be an easier matter than it seems now" (Op. Cit. p. 358). We must add in fairness to the spokesmen of the Zamindar class, that the best among them have begun to perceive the unfairness of their advantages. The proposal to include agricultural income in the increased Income Tax during the war was, it is curious to observe, defeated mainly by the votes unfettered! of the official members of the Imperial Council.

† Strachey estimated this yield from land rates at £ 5 million. At the present time it is estimated that the total rental of the Bengal Land Lords is four times the land revenue of that Province. Taking the Bengal Land Revenue at Rs. 4.2 crores for Bengal, Bihar and Orisa, the total rent ought to be Rs, 18 crores. The estimate above is, therefore, not much above the mark.

The mention of succession duty suggests another tax that is conspicuous by its absence in the Indian Financial System. But the conditions of Indian Society in this respect are fundamentally dissimilar to those of society in Europe. The greater proportion of the taxable property under such a tax would of necessity be paid in this country by the agriculturists; and as the agricultural classes admittedly are bearing their share and more of the national burdens, it is alleged that Succession Duties have no future in India. The bulk of the cultivators or small land-owners would no doubt have to be excluded from the operation of a succession Duty; but there is no reason to exempt the larger landlords, who hitherto have not taken anything like their fair share of the country's burdens. In their case, moreover, the administrative difficulty occasioned by the absence of any machinery for the collection of such a tax is insignificant, as the law and practice of succession is analogous to that of England, and a similar machinery can be easily instituted to collect this item of revenue. As regards personal property, it is true that Indians have not, speaking very broadly, yet acquired the economic habits of investing all surplus wealth, and thereby rending the transition from the dead to the living an easy stage for taxation.* But within the last twenty years, and still more within the last five years, conversion of personal property in easily realisable and earning forms has made appreciable advance; and certainly in the great towns, the taxation of personal property by means of a Succession Duty is now-a-days much more easy than was the case forty years ago. It is difficult to say what exactly is the amount thus held in the form of Stocks, Shares, Scrip, Bond and Negotiable Securities, Mortgages etc. Judging from the return of the Registrars of Joint Stock Companies and Finance Department as regards the National Debt it would not be much under 500 crores in India itself. On a rough calculation it may be assumed that about a tenth changes hands every year, and may be brought under taxation by means of Succession Duties, and yield about 5 crores. There could be no great objection to the Succession Duty, if very small properties are exempted, say those under 5,000 rupees value. There is, however, the plea, urged long ago by Sir James Stephen, that a succession duty in India would operate most iniquitably as, under the system of Joint Family and Joint Ownership in the Family Property, the demise of the head of the family in most instances would be an occasion not of additional strength to the survivors, but rather of weakness owing to the earning member of the family being cut off, and the consequent difficulty of making the property pay. As far as this argument affects the case of small proprietors, it is unanswerable. The co-proprietors gain, on the death of one of them, to the extent of the personal requirements of the deceased; but they lose to the extent of his earnings which are frequently more than his own expenses. The gain is frequently much less than the loss. But if we expempt

* It is of course commonly alleged that Indian capital seeks no profitable investment and is hoarded for the most part. If, however, we extend the meaning of the term Investment to Agricultural Loans, and if we had any reliable records of such loans the question of succession duty would lose much of the present difficulties connected with it.

as we must, very small-properties from the operation of such a tax; if we set up a reasonably liberal system of refunds for excessive collections, it is not impossible to believe that the Succession Duties might, even in India, afford an easy, convenient, handsome source of Public Revenues.

Another very productive source of revenue would be found in the consumption of **Tobacco.** It is certainly not a necessary of life, and is yet consumed by very large numbers of population in India. It is certainly not a beneficial habit, and the taxing authority may have similar justification, as in the case of the Excise Revenue from the consumption of the intoxicating liquors and drugs, for attempting to obtain a considerable revenue from this not quite desirable consumption. Tobacco monopoly has already proved very lucrative in France and Austria-Hungary, and there is no reason to believe that it would be otherwise in India. True, the cultivation of tobacco is scattered in the different provinces so much that the task of supervision with a view to prevent evasion of the monopoly is likely to prove arduous and possibly expensive. But the experience of the Provincial Agricultural Departments would, after a few years, suffice to obviate this difficulty; and, in course of time, a machinery would be evolved, which would prevent the infraction of the monopoly at the same time that it would collect the revenue. Possibly the revenue would have to be collected, following the opium model, in two steps; a license fee in the first instance for the cultivation of the tobacco, subject always to the understanding that all tobacco grown shall be sold at prescribed rates to the Government exclusively, Government undertaking to make advances during cultivation from time to time as required. The crude tobacco may be manufactured in a central state factory, and a monopoly price might be fixed by the Government for the vend of the cigars and cigarettes at post offices or other public agencies. To make the monopoly effective, the Import Duty on foreign cigars and cigarettes and tobacco in other forms would have to be raised proportionately, so that the total revenue would probably be something like 10 crores from all such sources combined.*

These three taxes must be introduced in our tax system as much because without such taxes the incidence of burdens is grievously unequal, as well as because, if the suggestion here made for the expansion of the activities of the State are adopted, the needs of the State will not be satisfied unless some such sufficient addition is made. They represent the minimum which according to our calculations will be needed by the Government of India when it is actuated by a truly Indian national sentiment, and undertakes a programme of national development which has so far been woefully neglected. There are other taxes which, perhaps, would not be supported on the ground so much of the

* Strachey estimated a tobacco monopoly revenue at £ 4 million. Combined with license fees and customs duties, it might be reasonably estimated at Rs. 10 crores. The objections as regards the uncertainties of the yield of crude tobacco owing to differences in seasons, as also, the objections as regards the differences in quality and the consequent difficulties in prices of crude material, have no importance, beyond causing some administrative difficulty. By differentiating in the prices of the finished article and establishing a reserve against unfavourable seasons, these difficulties can be easily obviated. The Tobacco revenue, by its very nature, must necessarily go to the Provinces. Inter provincial arrangements must be made to secure uniformity of the tax. The Import Duty must be raised much higher than in 1921.

needs of the State, as rather of the effects of the tax in discouraging or putting an end to some harmful social custom. Thus it is a notorious fact that much of the indebtedness of the Indian peasant and artisan springs from injudiciously heavy expenditure on ceremonial occasions like marriage or funerals. * If, by a system of Registration Fees, or by duty, a fairly heavy tax on the expenditure attending a marriage ceremony were levied, there is reason to believe that the present wasteful expenditure, will be considerably reduced. To be effective the tax will have to be graduated on the double principle of the scale of expenditure, as well as the age of the parties. This latter is an ideal of social reform which will be perhaps more easily effected by means of taxation than by an amount of preaching. The long established custom of injuriously early marriages among the Hindus as well as the Mahomedans in India would receive an effective check, if a proportionately heavy tax is imposed where either of the marrying parties is under say ten years of age, the tax being reduced with the addition of every year to the age of the parties till it disappears altogether when the parties are over fifteen. There are nearly five million marriages a year. At the flat rate of Rs. 5 of Licence or Registration fee for every marriage or a graduated tax according to Expenditure, concurrently with the License duty, ought to bring into the Exchequer about 5 to 7 crores of rupees at least. There is for the present at least no danger of the tax acting as a deterrent to the celebration of nuptials in India and the promotion of irregular unions, since the very largest majority of the Indian people regard Marriage as a sacrament, which will not be avoided for the sake of a small tax. To the social reformer the tax would in all probability be welcome, though it is probable that the tax might not command the same respect with the majority. As the reform of the institution of Marriage is extremely desirable, and the prevention of wasteful expenditure equally to be wished for, the tax may be advocated, even though it should in the long run involve a certain measure of unpopularity. To an Indian Government constituted differently from the present one, and resting on the support of the people, such social experiments would not seem hazardous merely on the political danger of unpopularity, though, of course, the Ministers deriving their power from a majority of votes may not feel sufficiently bold to venture on such steps. It would be disastrous for India if the spread of Representative institutions spells a stop to Social Reform Legislation. We prefer, however, to believe the leadership in India would be as much the result of personal magnetism of the leader as in any other countries; and that the education of the public conscience by such leaders would make such experiments much more easy that they seem to-day after sixty years of the complete Laissez-faire in this respect. In any even this would not be a tax on which it would be quite safe to rely as a permanent productive feature of the Budget, except in so far as it takes the form of a small Registration Fee. In the earlier

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*. It is a curious testimony to the similarity of human nature that even in England the poorest people make the largest proportional provision for the funeral expenses, as evidenced by the experience of the Provident Societies.

years, however, it may yield very substantial sums, if the governing classes would have the boldness to adopt such measures.

Other taxes besides these may be discovered by a diligent search and may be imposed according to the finacial necessities of the moment. With varying degrees of productivity we might mention a tax on Houses, a tax on Motor cars, carriages or other vehicles; a tax on Horses, servants and other means of display rather than necessity; a tax on betel leaf and areca nuts. With the exception, perhaps, of the last, these are all taxes likely to be most suitably managed by Local bodies than by the Central or even the Provincial Governments. In view of the suggestion that local bodies should be encouraged to extend their sphere of activities by undertaking productive public works within their means, such as light Railways or navigation Canals or other more suitable local industries, such additions to the Local Public Purse cannot but prove welcome. In large cities like Bombay or Calcutta, the House tax and the vehicles tax may quite possibly be made to yield substantial sums.† And even in smaller towns they would certainly fall on the classes best able to bear such taxation, and thereby improve the credit of the locality. As adjuncts to the Imperial or Provincial Finance we consider such taxation quite unsuitable.

LXXXI. OTHER SOURCES OF REVENUE.

But while the possible sources of new taxation cannot be expected to meet fully the requirements of an ambitious programme of Industrial development and Social Reform, we must realise that a well planned scheme of Industrial development might, after a very short period, yield substantial revenues to the Government and thus facilitate its own extension. There are a number of obviously paying industries which the Government of India might start or assist; *

† To take the case of Bombay alone, there are something like 10,000 houses which could pay a tax varying from five rupees to fifty a year without imposeing a heavy burden, and yield roughly about 2 lakhs; there are 5,000 motor cars which can well pay an annual license fee of Rs. 50 and thus yield 2.5 lakhs; 5,000 carriages which could pay a tax of Rs. 125 a year and yield Rs. 1·0 lakhs or in all nearly 6 lakhs without the slightest difficulty or additional expense. This it may be observed, would exempt all motor lorries and country carts from taxation, all houses occupied by the poor people, and some of the vehicles belonging to professional classes to whom they are a business asset, indispensable for earning their income. Calcutta could possibly show a still greater addition to its Municipal revenues from these sources. The Ways and Means section of the Bombay Development scheme showed an astounding poverty in the matter of finding out new taxes. The whole ques tion of unearned increment in Land and Building values, was almost ignored in spite of the great increase in these values in recent years. The Municipal Corporation of Bombay, if it were not a packed body representing Land Lord and well to do classes exclusively, could, by judicious manipulation of taxes at its disposal, increase its income and thus add to its ability for doing its civic duties properly.

* It is bound to be a seriously controverted question as to whether Government should undertake remunerative enterprise of the type described above, or leave it to the mercies of private ininative and speculation. We are convinced, for reasons which cannot be detailed here, that the best course in the case of industries non-existing in the country would be for the Government directly to under take and carry on themselves. It would save the waste inevitable from a multipication of such ventures if left to private initiative, and at the same time smooth the question of affording assistance to the ventures, which would be sure to be demanded from Government on the plea of the novelty of the industry. It would also earn a considerable revenue for the Government and allow the Industry to be operated in the national interests, if, as in the case of ship-building, a national policy is demanded which is likely to be unacceptable to private proprietors of the Industry. It would prevent the establishment of powerful vested interests which might frustrate projects or policies or public benefit if private interest should clash with public objects. The only alternative to Collective or public Ownership, that we should feel disposed to try, is Co-operative Ownership,

The latter however, has a fair field in industries which do not lend themseives easily to be concentrated and worked on a large scale, which are essentially local in their character. Co-operative enterprise has not yet been tried in India in the domain of Industrial Production. and, though personally we feel sceptic about its success, especially when the interest of the Co-operative proprietors should come into conflict with those of their employees on the one hand and the consuming public on the other hand, we think as an economic experiment there is much to be said in favour of giving a fair trial to the Co-operative production, in such cases like forest exploitation for example, including rubber plantation and manufacture, wood-distillation, paper mills etc.

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and which, if only the programme is carefully planned in advance, would be so productive as to meet the burden of further extensions and improvements out of the revenues of projects already commenced. Thus to mention but a few of the most obvious cases, we would suggest that we have great possibilities of developing the ship-building industry. If only the mail and the coastal traffic are reserved for Indian built and Indian owned ships, within three years the shipping department of the Government would meet all its expenses and leave a handsome surplus, if we are to believe the calculations of the newly started shipping companies in this country. * It would obviously be a source of considerable capital outlay at first, though nothing like the outlay required for the Railways. The total capital required for such industries would have to be borrowed, where the revenue surplus would not suffice to afford the necessary means for construction and improvement. Then again, there is the motor car industry. The possibilities of this new industry are not yet fully investigated, and it may be that the poverty of India in the matter of iron and steel may render the profitable establishment of this industry difficult. Should, however, it be found possible to undertake the project Government would obviously be the best agency to tackle it. The much more profitable industries, still untried in this country in spite of great possibilities, are the industries connected with Forests and mining enterprise. Banking and Insurance business, which to-day bring crores of rupees of profit to private individuals, rendering by no means the most efficient service, are a legitimate field even now of public enterprise. These would mean, without even a period of initial waiting, considerable revenues to the Public Exchequer. If in addition to the orthodox or conservative Banking and insurance business, the State embarks upon a more ambitious scheme of Industrial and Agricultural Banking; If besides, the hackneyed business of Fire, Life and Marine Insurance the State affords Insurance against Railway accidents, against burglary or other similar risks, against industrial disabilities and agricultural pests, the business can be very considerably extended, causing very little additional outlay to the State, particularly if the Post Offices and Railway stations are utilised to serve the public in such matters. The public confidence will be all the greater in such enterprise when conducted by the State than when carried on by private individuals. The existing private institutions of this kind are admittedly inadequate for the needs of the country even in the limited busineess they transact. There could, therefore, be no reasonable objection to the State extending its activities in the same sphere for public benefit; and the existing corporations will in all probability gain by the support of State institutions when established. The

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In other cases requiring large capital it would be best to confine the industry to the State and work it on a collective basis. The only danger that at this stage has to be feared is a possible growth of Provincial rivalries, if localisation of industries takes place irrespective of local sentiment. We believe, however, that the growth of a national sentiment combined with the use of the Industries thus commenced for a truly national object would go a long way to mitigate the force of provincial jealousies.

* The fact that recent private ventures in that line now stand at a discount is explained by other actors which have nothing to do with the possibilities of that industry in India.

revenue from a well developed Banking and Insurance enterprise alone may be put at the lowest at not less than ten crores annually.*

The question of finding the necessary funds for the establishment of all these various ventures has again and agaign been indirectly referred to, but not specially discusssed. Borrowing would no doubt have to be resorted to on a large scale for the initial outlay, while all subsequent extensions may be expected to be met out of the current revenues. The Government of India has already accumulated considerable reserves for the stability of the Anglo-Indian Exchange, and for the convertibility of the Paper money in circulation. A portion of these funds may be safely diverted to such projects, particularly if simultaneously improvements in Banking facilities render the apprehensions about exchange and conversion relatively innocuous. There are, besides, considerable amounts locked up in charitable funds which might, if the Government commanded the full confidence of the community, be utilised for the same purposes. † The sums possessed by Religious bodies and remaining practically utterly idle are another source of capital which a national Government of India must tap rather than render its credit sensitive by a resort to foreign money markets. It would be bold to say how much the immediate capital requirements of India could be provided by India herself; but, a modest estimate might suggest that half those needs could be met by indigenous resources, if only the Indian financiers know the right means to set about their business. ‡

The object of these suggestions for the extension of State enterprise in matters industrial is two-fold. On the one hand we shall need considerable resources for works of moral and material benefit of the country, which cannot be found from the existing resources. On the other hand the undertaking of such projects as have been suggested above would necessarily result in the creation of additional employment, and consequently more wealth, which alone can combat the appalling poverty of India. If the proportion of employment, which now obtains between agricultural and other occupations, can be altered even by the addition of a third of the present agriculturist population to industry, transport or commerce,

* Rather than fritter away the accumulated resources of India as represented by the Gold Standard reserve in London by an ineffectual policy of maintaining exchange, it would be more profitable to divert the fund or at least half of it, to such purposes. If the two reserves could be encroached upon for such purposes to the extent of half, they could supply sixty crores without borrowing. If the proposed Imperial Bank should introduce such expedients as the Postal cheque the Giro system, the possibility of danger would be considerably reduced, and people would gradually learn to economise the use of metallic money.

† No one can say exactly what amounts are locked up in effectual charities, or religious institutions or bodies. An estimate once made by the author as President of the All India Jain Conference, 1915, for his own community, indicated for that community alone a total of over 100 crores of realisable wealth at present lying utterly idle. The estimate was based on a guess of the possessions of individual temples and Orders in 1915. Its accuracy was never challenged, though, of course, the suggestion to divert this wealth for industrial or other social purposes was naturally most violently attacked. If we take into account the wealth of the Hindus, Moslems, Christians, Jews and other sects, the figure would be large enough for all immediate needs.

‡ The immediate available funds in India itself may be thus estimated:— (1) Savings Bank Deposits Rs. 20 crores. (2) Half of Paper Currency and Gold Standard Reserves Rs. 60 crores. 3) Deposits obtained by improved Banking methods Rs. 50 crores. (4) Public Trust Money Rs. 30 crores. (5) Portion of reliable and available capital locked up with religious bodies Rs. 200 crores, Total Rs. 360 crores.

the pressure would be substantially reduced on agriculture, and the horrors of famine and unemployment would be avoided. *

As already mentioned it is impossible to outline all the reasons why we have advocated State or Collective enterprise in at least new industries. One reason at least may here be mentioned. That India must work out her industrial ambitions by adopting the methods which are now collectively described as the Industrialism of the West does not admit of any question. There is no hope for the handicraftsman and the small artisan or else there would be no chance for India to become a great industrial country. † If this principle is accepted, India would be able to avoid all the dangers involved in the class conflicts, monopoly pressure, private greed, waste or short-sightedness if from the outset the principle of collective enterprise is frankly and fully adopted, in at least those industies which, admitting of large scale, concentrated operations, are yet quite new in the country, and therefore have no vested interests to contest or conciliate.‡

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* I have worked out this question more fully in my lecture on Indian Industry and Commerce, not yet published. The conclusion is the same, but I think in the established industries of cotton and jute, for example, the co-operative production and distribution should be tried as an alternative to private enterprise, as a solution of labour unrest, as a modification of the dangers of a Protectionist Tariff Policy. In transport and in industries based on agriculture, like sugar refining or rubber manufactures, also there is a limited field for the cooperative enterprise.

† The emphasis laid by Mr. Gandhi, in his Non-Cooperaton campaign on the Spinnig Wheel the one redeeming agency for India seem to imply, a curious perversion of history. The Spinning wheel has no future against the Power Mill and. as a nation, we cannot allow the waste of energy involved in denying to the nation the mechanical improvements and labour saving devices perfected in the West. Without being at all enamoured of the Western Industrialism, we may yet refuse, in the interests of the Indian nation to surrender the triumphs over nature won by man whether in the East or in the West.

‡ To the degree that collective enterprise succeeds, the financial problem would change its aspect from that of public revenues to the one of a more equitable distribution of the National Wealth Profits as we nowundertstand them, wil not be the one index of success; for the profits will be absorbed more and more by increase in wages or by cheaner service to the community.

CHAPTER IX.

LXXXII. SUMMARY OF RECOMMENDATIONS.

We have now reviewed the principal sources of revenue and expenditure of the Government of India and made our suggestions touching the improvement of a good many of them. If the recommendations made in this work were all given effect to, the Budget of the Government of India, taking the Imperial and Provincial Accounts together as has been the case until very recently, would stand somewhat as follows:—

Revenue.	In Crores of Rupees.	Expenditure.	In Crores of Rupees.
Land Revenue	20.00	Direct Demands	20.00
Opium	3.00	Interest on	
Salt	7.00	Industrial Debt	20.00
Stamps	15.00	Agricultural ,,	15.00
Excise	35.00	Transport ,,	15.00
Customs	40.00	Unproductive ,,	10.00
Income Tax &c.	35.00	Departmental	
Forests Domain	10.00	Education	40.00
Registration	10.00	Police	10.00
Post Office	15.00	Post Office	10.00
Railway Property	40.00	Sanitation	5.00
Irrigation	10.00	Law	7.50
Industries	10.00	Agriculture	5.00
		Miscellaneous	7.50
		Pensions &c.	15.00
		Transport & Communications	10.00
		Defence	35.00
Total Revenue	250.00	Industrial & Development	15.00
			250

In these figures, which are, of course, very rough guesses the principles involved have already been discussed before. The only explanation that need be offered here is. The land revenue has been reduced from 35 to 20 Crores in accordance with the principle of exempting a minimum of income from taxation. Again while the ideal of abolishing the drink traffic or that in other intoxicants must never be lost sight of, and that attempts must steadily be made to reduce all traffic of the sort and consequently all revenue therefrom, the figure given above will for

a few years to come go on rapidly increasing. It is only in the last item, the profits from the industrial domain of the state that we have provided a remedy for the predilections or weaknesses of the financier, inasmuch as the declining revenue in Excise will be more than compensated for by the increase in the last item in the list. If the Excise revenue is to include tobacco revenue as well as Opium revenue, the figure will for some time be much larger than what has been hazarded above. Similarly, the Customs Revenue, though no longer devised merely for the purpose solely of revenue, will be a growing item at first, with possibilities of effective checks to the growth in proportion as the ideal of indegenous development is realised. In that case, if our system of finance is properly balanced, the increase in the last item as well as in the Income and other Direct Taxes will make up for the decline in the Customs revenue. For the Post Office, the Forest Domain and Transport items no further explanation is needed. The elimination of the item of Tributes from the Native States is in accordance with our conception of the solidarity of the Indian nation against which these anachronisms of Indian States are so many hindrances. We have discussed in a later section the possibility of rearranging the finances of India on a national basis. The items of Interest, departmental and miscellaneous receipts have been altogether excluded from the Revenue side.

On the side of Expenditure, it is necessary that the military expenditure should be definitely limited, by a clear definition of the purpose of the army. There must be no occasion for any subterfuge, no possibility of its abuse in aggression upon our neighbours. And in so far as these neighbours may afford legitimate grounds of apprehensions for our national safety, the limits must be clearly, precisely drawn as to the point where national defence ends and Imperialistic aggression begins. The head of Interest is explained by its subdivisions. We have classed, against the principle laid down elsewhere, education under departmental expenditure, not because we have lost sight of the fundamental distinction, but because for the purpose of this summary such a classification is convenient. The table given above does not show at all the one principle of public expenditure in India on which we have insisted elsewhere. There will be no chance of a radical reform in our financial system so long as the Home charges are not utterly abolished, no means of introducing a rational currency system so long as our Government continues to be obsessed with large annual payments to be made in a currency other than the one commonly accepted, or legally established, in the country. The mere expedient of increasing the proportion of Indians in the public services will not help. We must definitely resolve finally and completely to do away with the costly foreign agency within a given period. Our non-effective charges will thus be payable within the country, while the incubus of the British War Office will be abolished. As regards Interest, even granting that a certain amount has to be paid out of India, the burden will be insignificant if the indebtedness is incurred for productive purposes on strict commercial principles and is managed by properly conducted banking institutions.

In Civil Expenditure we have urged in its appropriate place the need for a revision and redistribution in the salaries and emoluments of public servants. In the gross, therefore, we cannot expect any economy worth speaking off, unless we take into account the gain from increased efficiency and greater contentment of the lower paid services. The industrial expenditure may be of capital and non-recurring nature, or may be recurrent. It would be best to charge it against revenue upto a sum suggested in the table, and beyond that to loan account.

PART IV.

THE PUBLIC DEBT OF INDIA.

LXXXIII. Nature of Public Credit and the Necessity of its Use.

The practice of borrowing by great states in modern times has become so common that we are apt to forget the relatively very recent origin of this use of public credit, and also to misunderstand its nature. If by credit we understand the power to obtain command over another's capital or wealth, acquired with the free consent of the true owner in return for a promise to reimburse at a later date, together with a regular payment of a stipulated interest, we must recognise some important fundamental differences between public and private credit, and the consequent difference in the treatment of public and private indebtedness. In the case of private individuals in all ordinary borrowing the borrower must offer to the creditor some security—a mortgage or a pledge—out of the borrower's existing or expected wealth, without which the loan operation would be difficult. In the case of public borrowing by the state, it is, as a rule, impossible for the state to alienate any portion of the public domain, even if the State possesses one.* In fact, in most cases the effective cause of borrowing by the State is the absence of any realisable and alienable wealth belonging to the Government as representing the State. This great difference between a private borrower and State borrowers leads to considerable divergences in the contract of Loan. The creditor in the case of private borrowers can in the last resource, realise his claim out of the specific security obtained at the time when the loan contract was made; but there is very little, if any at all, possibility of this nature in the case of the indebted States. Again, while a private borrower, given the will and the foresight or prudence required, can make regular and immediate provision to meet his debt when it should fall due by increasing his efforts to produce or by cutting down expenditure, the debtor state cannot always and readily adopt such a course. More often than not its loans have been contracted for purposes which have no substance or surplus behind. And the public Expenditure of the State admits of no rapid and proportionate curtailment such as would guarantee the repayment of the Loan when due. Works may have been commenced or policy adopted which could not be altered,

* For the liquidation of German indebtedness, the proposal to hypothecate the German Railways and public mines is now frequently heard. In a manner the conditions of Reparation in the Versailles Treaty suggest an indirect hypothecation of the German national resources. It remains to be seen how far the sovereignty of the new German State will in practice prove compatible with these conditions, how far the League of Nations would enforce or modify the Versailles Treaty in this particular.

and, therefore, expenditure in connection with them cannot be reduced. Public servants again, may have been engaged who cannot, without serious risk of chronic unemployment and wide-spread misery, be dismissed to afford relief to the Public expenditure. Hence, though the State enjoys the advantage of being sole judge of its own solvency, though it admits no limits to its revenues save those imposed by the absolute needs of its citizens, it is yet in a markedly difficult situation in the matter of retrenchment to repay its debts.

Such being the differences between the nature of private borrowing and that of the State, the question next arises how far and on what grounds is it advisable for the State to borrow. If on every occasion that the receipts do not suffice to meet the disbursements recourse is had to borrowing, the limit will soon be reached beyond which not all the exercise of the sovereign powers of the State would suffice to meet even the interest charge on the new debt added every time. Under such circumstances the State will be faced with an annihilation of its credit altogether. The common device of incompetent or timid financiers to borrow on the pretext that the deficit in the Budget is due to extraordinary expenditure, not likely to recur in the subsequent years, and therefore not fit to be charged on the current revenues, is subversive of all sound principles governing the management of public credit. An outlay, which in a given year appears to be extraordinary, *e. g.* reorganisation of the Army, or the cost of a military expedition, or of famine, may yet be recurring if not in the same form or the same object in the subsequent years, at least with the same effects as far as the public Purse is concerned. But even granting the Non-recurring character of such extraordinary expenditure, that by itself is no justification for a recourse to borrowing rather than looking to current revenues to finance such an outlay.* It may, indeed, be that the revenues of the State are for the moment so fully charged with the ordinary expenditure that for that year at any rate borrowing may be inevitable; but if so such a loan must be for the shortest possible term, and provision must be made by the state to pay it off from the increased current revenues. No debt incurred to cover a temporary deficit in the ordinary income should be such as to accumulate and increase till its interest charge should come to be so great as to absorb all possible increase in the revenues.

The proper justification for the use of public credit, then, is to be found in those objects of public utility, the cost of which is too large to be met out of current revenues, and the result of which is expected to be such an addition to the current revenues as to render the burden of the debt insignificant. As all public borrowing is an inroad upon the capital of the citizens, which is thereby diverted from

* In England, the home of sound Finance, the opinion seems to have gained ground ever since the time of Wm. Pitt the younger that it would be preferable, as far as possible, to finance a War by increased revenue than by loans; and what applies to War applies to all other apparently extraordinary non-recurring expenditure. Gladstone, in his Budget Speech of 1854, has made the principles governing Wax Finance classic. The line of distinction between what outlay should be met by loans and what by taxation may be said to lie along the possibilities of benefit to the subsequent generation. Borrowing would be necessary as well as commendable if from a contemplated outlay the generations to follow are expected to derive material benefit. Borrowing would be ruinous if incurred only ro cover up the waste caused by our generation in the eyes of our posterity. The eighteenth centuy opinion that all public borrowing is beneficial is thus without justification.

productive purposes in the hands of private individuals, the State would not be justified in causing the diversion, unless it is expected to accomplish a similar object which private individuals may not attempt because of its vastness or unfamiliarity. It may sometimes happen that public borrowing for objects of utility, or rather for reproductive purposes* would not meet this test, if we consider only pecuniary results to the State itself; but if as the consequence of this extension of public activity, there is an addition to the wealth of the community, this indirect gain to the State may afford sufficient justification for the original borrowing. And there are other advantages of the State utilising its credit for such purposes. It gives an impetus to the instinct of saving and consequently to the formation of capital by affording safe channels for investment. Its operations engender, also, the habitude of dealing in securities or intangible wealth. Only care must be taken that by too frequent a recourse to borrowing the State should not destroy all spirit of private enterprise, or create unnecessary fluctuations in the market for capital leading to unjustifiable speculation.

If public indebtedness should have been incurred exclusively for productive purposes the question of paying off the debt has hardly any practical interest. The question must no doubt remain very important in every case of a debt incurred for purposes which leave no tangible assets behind it to meet the charge. Provision, whether by means of a sinking fund or other specific reserve, or by additional taxation, must be made to pay off such a debt; for the sooner this useless burden is removed the better for public credit and general welfare. But in the case of debt incurred for objects indicated above, the surplus revenues,—after a certain period, would suffice to bear all charges, and provide for liquidation automatically. If, under such circumstances, no effort is made to pay off the capital even though there is a surplus, the State may have other objects in view, or some special justification. In any case there would be no need for anxiety so long as the surplus created is not what the french writers call "gaspillé." In a society in which some kind of collective enterprise is accepted, but does not exclude private enterprise altogether it would be wise for the state to clear its property as soon as may be of all charges, including those for capital redemption, particularly if the programme of public borrowing for similar purposes is a continuous one. It would not be wise to suffer public credit to be impaired merely by over confidence or indifference. While no special effort is needed, no additional taxation has to be imposed, it would yet be prudent to apply the normal surplus due to such enterprise to pay off the debt charge.

It may, however, be observed that the present universal practice consists in giving a collective guarantee of the credit of the State as judge by its total revenue resources without any attempt at specification, without any idea of

*. Borrowing only for productive purposes would not. it may be suggested, cover the case of borrowing for Railway construction; for strictly speaking Transport is not production but only a facility in exchange. Borrowing for productive purposes is ot necessarily the same thing as borrowing for objects which will ultimately pay to the State.

setting apart given revenues for given objects. The practice of consolidation is no doubt advantageous, particularly in a rich state with a variety of obligations incurred at different times for different purposes. As in such a case there would be a possible chance for the weakest link in the chain to determine the strength of the entire chain, consolidation helps to prevent such weakness from becoming apparent to the prejudice of the credit of the State. As no state is quite free from some part of its debt being for wasteful purposes, the practice of consolidation may on the whole be commended. It has, moreover, another advantage in that it helps the State to avail itself of any fall in the rate of interest, and thus reduce its total burden by way of Interest. The practice, if uniformly adapted, would prevent the automatic liquidation of that portion of the debt which may have been incurred for productive purposes. In that case the only safe recommendation would be analogous to the policy followed in England before the last great War: apply all the available surplus for the redemption of the debt, arranging the normal standard of revenue and expenditure so as usually to leave a surplus.

LXXXIV. THE ORIGIN OF INDIAN DEBT.

The public debt of India, as it exists to-day, is the creation exclusively of British rule in this country. The previous governments had to live necessarily within their income, as much from the ignorance of the nature and use of public credit as from the impossiblility of putting it to proof in a well ordained manner, even supposing the earlier financiers understood the character and aim of Public Credit*. India had, therefore, no National Debt prior to the establishment of the British rule in the country. The East India Company, as already observed elsewhere, was a notorious offender against the canons of sound finance. Whenever its revenues failed to suffice for its expenditure it had recourse to borrowing. When the trading charter of the East India Company expired in 1835, the total rupee debt *i. e.* the debt incurred in India—was Rs. 33.295 crores as the result of wars and conquest. In the next fifteen years, the Afghan and Sikh Wars combined to raise the debt by 1850 to Rs. 45.336 crores, which remained nearly at the same level right upto the Mutiny in 1857. The heavy expenditure involved in suppressing the Mutiny caused a considerable increase in the total indebtedness, amounting in 1859-60, the year following the Mutiny, and the first year under review here to Rs. 63.555 crores. On the transfer of the Government of India to the crown, the Crown assumed this debt of the Company in addition to a payment of £12 million to the proprietors of the East India

*. This, of course, does not mean that the ancient Indian potentates did not indulge on their account into occasional borrowing and whenever they did they could have offered the only security they commanded, public Revenues and public property of their states. There was no clear distinction between the private operations of the ruler and public obligations of the State. Nevertheless, as all such indebtedness must, by its very nature, have been of short duration it was paid off or written off or suppressed without becoming a public and permanent charge. This may be instanced as one of the ' advantages" of native rule.

Stock, which sum was also added to the debt of India.* The sterling debt during the company's regime was insignificant. The following table shows the growth of this debt from 1820 in ten yearly periods.

† Year.	Registered debt. in India Rs.	Registered debt in Engl. £.	Interest payable Rs.	Interest payable. £.
1820-21	27,24,77,630	5,762,888	1,63,15,400	253,247
1830-31	33,12,96,680	3,750,479	1,74,19,770	93,377
1840-41	29,47,65,040	1,750,992	1,35,37,050	59,856
1850-51	45,42,87,550	3,920,592	2,12,39,750	136,482
1860-61	63,44,58,100	28,496,917	2,88,34,460	1,249,832

The East India stock of £12,000,000 was provided for by a special fund, which would have paid off the amount by 1875. Though this debt was actually paid off in 1874, the fund for the purpose was less by £4,579,416 for the amount in 1874; and consequently the sum was added to the permanent debt of India.‡ But the whole of this transaction relating to the transfer of the debt incurred by the company to the Government of India under the crown has been challenged from the stand-point of political justice. The debt had been piled up to effect the conquest of India, and when the Empire was acquired by the crown, the cost of its acquisition was saddled on the Indian exchequer. In the opinion of Mr. Dutt § an impartial tribunal discussing this debt would have ruled that no claim lay against India as to £69½ million of the debt which was "part of the unjust demand of an annual tribute which India should not have paid". The cost of suppressing the mutiny by British troops, amounting to £40 million might have been allowed against India, subject to a deduction for the expenditure incurred by India on the wars waged for British Imperial purposes—wars with Afghanistan, Persia or China. The Public works Debt of £24 million would also, he thinks, have been allowed against India, subject, possibly, to injunctions against further borrowing to meet wasteful gurantees on Railways. "A hundred millions of the so called Public Debt of India would thus have been struck off as not justly due from India.....There would have been no National debt; for there need be no National Debt in India."

* *A propos* of this debt the Welby Commission observes. "The history of this debt during the last 60 years conveys an interesting lesson in finance. From 1838-9 to 1861-2 deficit was the rule and surplus the exception, for 19 years of the former were arrayed against five of the latter. The statistics of the Company leave much to be desired in precision and the figures of the early years must be taken only as approximate.....The permanent debt of India, whether raised here or in India amounted on the 30th April, 1842, to £33,577,414. On the 30th April, 1857 immediately before the Mutiny, it amounted to £51,327,958 an increase of 53 p. c. in 15 years. The 30th April 1862 marks the close of the Mutiny expenditure, and the permanent debt had then risen to £97,037,062 an increase in 20 years of nearly 190 per cent."

N. B.—Owing to imperfection in the statistics the figures for this period as given by different *authorities do not agree. See inter alia Wilson's first Budget statement, Dutt's India in the Victorian Age*, Strachey (op. cit.) the Statistical Abstracts, &c. The Welby Commission figures are from a Parliamentary Return of 1881.

† Of course the rupee and sterling figures are not to be understood as showing a difference in the proprietorship of the debt, making the rupee debt belong to Indians and the sterling debt to Englishmen. Though no definite information is available, it is probably quite true that a considerable proportion even of the rupee debt was held by Englishmen in England. One can easily understand that in the early years of the Company's rule they could not have persuaded Indians to lend to the Government.

‡ Para, 118 of the Welby Commission Report.

§ P. 375, Dutt. p. o. cit.

LXXXV. INTEREST RATE AND CONVERSIONS 1850—1915.

We cannot quite adopt the view underlying the last statement, though as regards the major portion of the Company's unproductive debt * opinion may well be divided as to whether India could in justice be asked to bear its burden. The offence of the company was all the greater, because while they went on borrowing for wars and similar wasteful purpose, they made no provision to pay off the debt. Some attempts at funding and conversion were made during the closing years of the Company's rule, but they were of no avail. The interest on the rupee debt was in 1820 at the rate of 6% and the debt bearing this higher rate was not paid off till 1858-59. From 1823 to 1853, the company had borrowed at 5 % and between 1824 and 1835 small amounts had also been borrowed at 4 %. The bulk of the 5 % debt was converted into 4 % in 1854, but the shock to the credit of the State caused by the Mutiny necessitated more borrowing at the higher rate of 5 % which was not finally paid off till 1871. In 1859 the Government of the crown had to borrow at 5½ % and that loan was not paid off till 1878-79. The 5½ % loan was, however, converted in 1871 into 4½ %, so that after 1878-79 practically the whole rupee Debt was at interest varying between 4 % and 4½ %†. The 4½ % Loan was converted by 1893 to 4 % with the exception of a sum of Rs. 1 crore borrowed from the Holkar durbar for the Indore State Railway, and not convertible till 1970. In 1893 commenced the first 3½ % debt. and in the next year the bulk of the 4 % debt was converted into this lower rate debt. In 1896-97 a new loan of Rs. 4 crores was raised at 3%, but in 1900 the rate was again raised to 3½ % which remained the prevailing rate until war broke out in 1914.

LXXXVI. ORIGIN OF PRODUCTIVE BORROWING.

Productive borrowing entered into the scheme of the East India Company's Finance to a very small extent towards the close of its regime. The principles which ought to govern such borrowing were not, however, properly understood at first. The only productive outlay by the company was on Irrigation canals in the United Provinces and the Punjab, which was estimated to have cost in all about Rs. 5,40,00,000. by 1862.‡ In 1867-8 a new policy was adopted. The State from that time determined to charge all expenditure on Irrigation and construction

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*. Prof. Ramsay Muir in a letter to the present author, criticising his work on the Governance of India, objects to this view as being unjust. He considers that the British crown, taking over the Government of India from the Company, was in the same position as a capitalist or Land-lord buying an estate which he thinks has immense possibilities, but which needs considerable outlay for reclamation works before the estate could be made to pay. As the capitalist does not wish to obtain any profit for himself from the estate, he could not be blamed if he charges the estate at least with the cost of reclamation. We cannot agree to this view of the case. It is open to argument whether the British Crown—the capitalist—has not derived directly or indirectly, considerable gain for the British public out of this rich estate of the Indian Empire, even if we accept that the Company's debt was incurred for anything at all similar to reclamation Indians will find it difficult to adopt this view. In any case granting the whole position of Prof. Ramsway Muir, it only comes to this that the British crown should not have been charged with the East India Company's debt. It does not show why India should bear that debt. Possibly, it would be most in accordance with political justice to say that the debt should have been borne by neither India nor England. The creditors must be taken to have lost their claim on the demies, after insolvency, of their debtor, the East India Company.

† Out of the total rupee debt in 1878-79 of Rs. 76.48 crores, Rs. 15.14 crores was at 4½ % and Rs. 61.333 at 4 %..

‡ This sum of Rs. 540 lakhs was spent on Public Works before 31st March, 1867, and the Public Works Debt was increased accordingly. The details of this outlay are vague. See para 118 of the Welby Commission (Majority) Report for some explanation and adjustments.

of Railways by the State to a capital account. The item of Debt was split up into two in the Public Accounts, the "Productive" or Public Works Debt, the interest on which was not to be charged under the general heading of "debt," but under the Railway Revenue account and Irrigation. The remaining portion of the Debt was to be called Ordinary Debt, interest on which was to be charged under the general heading of Debt. In working out the new Policy it was found, that as the Government of India had provided for no sinking fund, and as no positive Law required the application of the revenue surplus to the redemption of the Debt, while the great undertakings of Public Works demanded considerable and recurring expenditure, it was most convenient to devote all spare or surplus revenue, not to the purchase of debt with a view to its cancellation, but to capital expenditure on works for which the State would otherwise have to borrow. In order however, to show accurately the amount of this capital expenditue, the revenues thus expended are charged to the "Public Works" portion of the debt and deducts a similar amount from the ordinary debt. If in any year Rs. 1 crore can be saved, the amount is spent on Public Works, and a corresponding addition is made to the Public Works Debt, and a simultaneous and equivalent deduction from the Ordinary Debt. The effect is the same, but the cost of a double operation is avoided, and the revenue surplus applied automatically to Productive or Public Works purposes.

LXXXVII. THE ORDINARY UNPRODUCTIVE DEBT OF INDIA UPTO 1920.

The Ordinary Debt, whatever its justification, has by the operation described above been steadily reduced, even though the Government of India have not followed the English precedent in this respect of buying debt for purposes of cancellation. Between 1860 and 1920 it has frequently been added to by the three main factors of Famine, War and Exchange, while it lasted. The marginal table, however, shows that in spite of much additions the total debt was, upto 1914, regularly reduced, with a corresponding increase taking place in the Productive debt, in so far as revenue surpluses were devoted to these purposes. During the European War the unproductive debt was very considerably increased, first in 1915-17 to meet the requirements of the Government of India, and after 1917 in order to make a War Contribution of £145 million to the United Kingdom. The policy of borrowing during the War had, if at all, to be carried out in India, as the English money market was already too heavily strained by similar operations of the British Governmnet to permit any considerable borrowing by other bodies. But borrowing in India apart from the intrinsic wisdom or necessity of such a course as between England and India in view of the past history, inevitably led to an undesirable deflection of Indian

Date.	year.			Ordinary Debt. Rs.	P. C. of total.
31 March.	1888	..	..	109.5	48.5%
do.	1893	..	..	97.5	37.14%
do.	1898	..	..	105.2	36%
do.	1903	..	..	88.7	28%
do.	1908	..	..	56.1	15.24%
do.	1913	..	..	37.5	9%
do.	1914	..	..	19.2	4.6%
do.	1915	..	..	3.3	.8%
do.	1916	..	..	3.0	.7%
do.	1917	..	..	10.5	2.5%
do.	1918	..	..	133.3	24%

capital from more productive and legitimate channels. For the first time in a hundred years an opportunity had occurred for the development of Indian industries by Indian capital; but that opportunity was baulked by a policy of heavy borrowing, often under considerable and illegitimate pressure from official quarters. The evil might have been borne without protest as an inevitable misfortune of war-time, could the people of India have consoled themselves that the service rendered would have been at all adequate. But a policy which might have put back the Indian industrial development by a generation could not, even if it had been realised to the fullest desired extent, have borne the British War expenditure for more than a fortnight in 1918. And, even so, India might have endured this borrowing in silence had there been no alterative. As a matter of fact the British Government was borrowing heavily in the United States, which had immense resources to offer to its allies. The Government of India could have borrowed in America, either directly themselves, or taken over a part of the debt of the British Governemnt equal to the promised contribution, much more easily than in this country. The service to the Empire would have been the same, while the disturbance to Indian industrial development would hve been completely avoided. As it was the Policy of Borrowing in India was continued at the expense of serious inflation in prices till its logical conclusion had to be accepted in 1918—prohibition of all industrial investment except under license. No one can say what would have been the ultimate consequences if this policy had lasted a couple of years more. Luckily, however, the war came to a close in 1918, November and this disastrous policy was shelved.*

LXXXVIII. INTEREST, RECEIPTS AND EXPENDITURE.

We may at this stage consider the head of Interest in the public accounts. There are both receipts and expenditure under this heading, and the net charge would be obtained only after making allowance for these receipts. The subjoined table shows the growth of this item of net expenditure during the last sixty years. It appears as an item of net charge because the profits from Productive Public Works are not set off here against the interest paid on capital, supposed to have been borrowed for the purpose. In addition to the ordinary debt, there is also a certain amount of unfunded floating debt represented by Savings Bank Deposits and other similar obligations; interest on which is also included.

Year.	Interest Receipts. £.	Interest charge. £.	Net chargs. £.
1861-2	34,218	3,134,897	3,100,579
1871-2	363,212	5,966,299	3,603,087
1881-2	896,904	7,488,380	6,591,476
1891-2	879,443	9,623,350	8,743,907
1901-2	785,680	7,062,928	6,277,248
1905-6	944,986	7,349,455	6,404,469
1911-12	1,448,748	9,282,220	7,833,481
1912-13	1,473 708	9,524,108	8,050,400
1913-14	1 352,119	9,334,418	7,981,299
1914-15	1,023 307	9,771,583	8,748,276
1915-16	1 096,417	9,985,529	8,889,112
1916-17	1,136,504	9,624,645	8,488,141
1917-18	2,170,108	16,169,993	13,999,885
1918-19 R. E. ..	3,842,900	16,667,300	12,824,400
1919-20 B. E. ..	3,637,400	16,739,900	13,102,500

* In September 1918 the Government of India promised an additional contribution of £ 45 million, the War was prolonged, and if India had not to face any Extraordinary Expenditure for War or Famine herself. Both these eventualities did occur in 1919-20, and the contribution is once again under discussion The Afghan War alone has cost £ 16 million. There is no reason to continue this contribution now.

The receipts under interest are derived from profits of the invested portion of Paper Currency Reserve and of other Reserves and Balances, Loans made to Native States, Provincial Government and local bodies, &c. The following table gives an analysis of these receipts :—

INDIA :—		1915-16	1916-17	1917-18	1918-19
	Imperial (in lakhs of Rupees.)				
1.	Int. on Imp. Loans &c.	34.83	34.21	33.83	36.00
2.	Profits of Pap. Currency ..	34.70	34.70	34.70	34.70
3.	Int. on Ry. Co. overdraft. ..	5.62	5.67	6.39	5.60
4.	Int. on Cap. Adv. to Ry. Co. ..	.40	.09	.10	.09
5.	Int. on Ry. Co. Prov. Fund securities..	..	..	1.02	31.51
6.	Miscellaneous ..	3.55	3.24	6.48	12.17
	Provincial Total ..	54.72	51.25	46.95	40.63

ENGLAND :—					
	(in thousands Sterling.)				
1.	Int. on Pap. Cur. Reserve ..	78	..	979	1719
2.	,, ,, Cash Balances ..	93	214	364	280
3.	,, ,, Special Reserve ..	31	24	21	772
4.	,, ,, Miscellaneous ..	1	37	64	..
	Total in thousands Sterling. ..	1.096	1.136	2.170	3.843

N. B.—The division of Interest Receipts between Imperial and Provincial Budgets is explained by the fact that certain sums are annually placed at the disposal of the Provincial Governments, to be by them advanced to the cultivators or Local Bodies. The interest on these is taken by the Provincial Governments. The very heavy increase in the last 3 years in the item of Interest Receipts in England is due to (1) considerable investments in British Treasury Bills and other securities as a Reserve against the special short term debt of the Government of India, and (2) owing to increasing interest Receipts from the larger and larger investments in the Gold Standard and Paper Currency Reserves. In the two Reserves combined, India has invested over £130 millions in the various British securities. They have depreciated substantially, and a provision of £399,080 in 1916-17, and of £450,000 in 1917-18 was made by way of a depreciation Reserve Fund. These sums have been deducted. There is, besides, a special Reserve, the interest on whose investments was taken at £772,600 in 1918-19, and £291,200 in 1919-20. In the former year this figure has been included under the Receipts by way of Interest.

THE NEXT TABLE GIVES AN ANALYSIS OF INTEREST EXPENDITURE

Year.	Interest on total debt.	Int. on Ry. Debt.	Int. on Irrig. Debt.	Int. on Ord. Debt.	*Int. on other Obligations.
	£.	£.	£.	£.	£.
1909-10 ..	8,752,399	6,127,191	1,058,711	1,566,497	548,548
1910-11 ..	8,989,682	6,267,685	1,115,410	1,606,587	562,315
1911-12 ..	8,282,229	6,664,210	1,182,867	1,435,152	602,583
1912-13 ..	9,524,108	7,072,548	1,282,513	1,169,047	641,488
1913-14 ..	9,334,418	7,303,145	1,304,846	726,427	789,226
1914-15 ..	9,771.583	7,912,214	1,409,529	449,840	741,417
1915-16 ..	9,985,529	8,022,623	1,451,350	511,556	678,808
1916-17 ..	9,624,645	7,759,322	1,413,200	452,118	722,746
1917-18 ..	16,169,993	8,155,481	1,515,595	6,498,917	829,252
1918-19 ..	16,667,300	8,287,400	1,540,200	6,839,700	1,026,900
1919-20 ..	16,739,900	8,558,600	1,563,700	6,617,600	1,145,900

* This last is not included in the total in column 2.

A considerable amount of this interest is paid in England, and was responsible for a great portion of anxiety caused by the falling Exchange in the closing years of the last century.* Upto to the mutiny the interest bearing sterling debt was very small; but in the three next years it was very largely added to on account of the cost of the suppression of the Mutiny. Thereafter the heavy and yearly increasing outlay on Railways demanded regular additions to the Sterling debt held in England, which thus comes to be even more important than the rupee debt held in India. The table below shows the two kinds of debt and the Interest payable on either.

* The Welby Commission (Majority) Report (para 122-23) calculates the charge of Exchange on the sterling debt of India at Rs. 1,73,70,000, on a real charge of Rs. 2,16,10,000 or nearly 80 p. c., or out of the total charge of Rs. 3,89,80,000 nearly 45 p. c.

* Amount of the RUPEE and STERLING DEBT and of the INTEREST thereon, annual INCREASE or REDUCTION of the DEBT and the PROPORTION of the RUPEE DEPT held in LONDON, from 1860-61 to 1915-16.

Year.	Registered debt in India.	Registered debt in London.	Interest payable.		Porportion of the registered rupee debt held in London on 31st. March
	Rs.	£.	Rs.	£.	Rs.
1860-61 ..	63,44,58,100	28,496,917	2,88,34,460	1,249,832	....
1861-62 ..	63,42,08,450	32,116,217	2,88,32,440	1,457,874	....
1862-63 ..	63,82,11,060	31,860,017	2,89,95,320	1,430,765	(a)
1863-64 ..	63,40,38,320	26,332,517	2,88,06,180	1,209,621	....
1864-65 ..	63,36,66,840	26,146,017	2,88,00,400	1,233,165	....
	(a) No information.				
1865-66 ..	62,38,10,770	26,967,317	2,84,13,900	1,274,230	....
1866-67 ..	62,97,84,230	28,559,917	2,87,13,200	1,402,540	....
1867-68 ..	63,76,50,020	29,718,417	2,91,57,860	1,448,875	....
1868-69 ..	63,41,06,910	31,218,917	2,89,87,270	1,469,916	15,38,06,930
1869-70 ..	65,59,34,220	35,217,617	2,98,17,500	1,629,868	16,24,51,720
1870-71 ..	66,80,96,570	37,627,617	3,01,56,310	1,726,268	17,64,70,910
1871-72 ..	67,96,89,420	39,012,617	2,98,08,300	1,781,618	13,56,38,630
1872-73 ..	66,45,83,690	39,012,617	2,89,20,500	1,831,467	13,04,77,110
1873-74 ..	66,41,72,910	41,117,617	2,89,50,060	1,867,121	13,27,22,050
1874-75 ..	69,84,99,590	48,597,033	3,03,35,320	2,165,364	14,05,71,800
1875-76 ..	72,77,29,810	49,797,033	3,15,20,180	2,212,582	15,45,77,080
1876-77 ..	71,92,31,260	55,397,033	3,10,98,710	2,436,271	14,21,01,660
1877-78 ..	74,95,45,200	59,677,033	3,22,68,610	2,607,472	15,78,70,170
1878-79 ..	78,83,89,260	59,029,117	3,25,77,260	2,581,555	17,14,82,760
1879-80 ..	82,87,25,090	68,855,556	3,41,76,560	1,937,886	20,52,60,670
1880-81 ..	85,95,97,460	71,429,133	3,55,92,700	2,846,478	20,26,31,450
1881-82 ..	88,65,31,620	68,181,947	3,66,43,280	2,708,198	22,65,59,550
1882-83 ..	90,68,87,660	68,585,694	3,74,11,490	2,725,748	22,58,11,320
1883-84 ..	93,19,13,840	68,108,837	3,84,91,140	2,704,207	22,08,75,180
1884-85 ..	93,18,36,600	69,271,088	3,84,18,550	7,691,828	21,83,98,370
1885-86 ..	92,70,39,820	73,806,621	3,77,38,380	2,833,068	20,71,23,580
1886-87 ..	92,65,36,300	84,228,177	382,02,570	3,165,411	19,14,95,570
1887-88 ..	98,08,98,620	84,140,148	4,03,78,580	2,918,039	20,81,88,870
1888-89 ..	1,00,87,97,420	95,033,610	4,13,73,120	3,230,474	21,71,40,680

* These figures are taken from the Indian Year Book 1919. They do not quite agree with those in Budget.

	Rs.	£	Rs.	£	Rs.
1889-90	1,02,76,11,750	98,192,391	4,21,56,080	3,327,348	21,59,40,490
1890-91	1,02,74,65,550	104,408,208	4,17,51,110	3,524,376	26,73,12,95
1891-92	1,02,69,23,170	104,404,143	4,17,15,000	3,602,349	27,50,58,410
1892-93	1,02,93.75,520	106,683,767	4,12,77.760	3.570.682	25,93,38,610
1893-94	1,05,54,60,780	114,113,792	4,20,92.060	3,687,986	24,16,55,410
1894-95	1,04,37,37,400	116,005,826	3,61,09,140	4,825,323	23.62.59,660
1895-96	1,03,78,89,280	115,903,732	3,64,00,740	3,607,832	25,35,07,520
1896-97	1,09,11,50,530	114,883,233	3,78,43,760	3,813,208	24,06,66,620
1897-98	1,11,69,56,340	123,274,680	3,87,11,060	3,940,776	21,50,87,030
1898-99	1,12,65,46,980	124,268,605	3,91,13,340	3,882,758	21,44,12,330
1899-1900	1,12,47,47,010	124,144,401	3,90,56,317	3,877,026	20.81,88,234
1900-01	1,15,33,19,058	133,435,377	4,00,58,600	4,158,351	22,18,12,135
1901-02	1,16,19,13,833	134,307,090	4,03,60,615	4,213,821	20,36,22,034
1902-03	1,17,55,40,660	133,796,261	4,08,37,864	4,213,537	18,63,35,034
1903-04	1,19,42,43,035	133,045,844	4,14,90,065	4,238,273	17,13,92,234
1904-05	1,22,29,78,235	132,887,191	4,24,92,526	4,282,744	16,81,55,234
1905-06	1,26,08,10,618	146,457,439	4,38,10,365	4,715,233	16,43,82,933
1906-07	1,30,45,50,655	147,518,634	4,53,38,937	4,743,108	16,49,16,833
1907-08	1,32,82,94,955	156,481,074	4,61,66,110	5,053,632	15,23,21,733
1908-09	1,34,56,60,505	160,973,369	4,68,19,197	5,210,695	14,43,66,433
1909-10	1,36,84,33,105	170,105,911	4,76,47,428	5,530,758	15,21,19,933
1910-11	1,38,09,72,155	177,998,335	4,81,24,302	5,668,417	12,78,49,733
1911-12	1,39,96,36,205	178,486,597	4,87,76,458	5,705,597	11,73.03,533
1912-13	1,42,83,64,790	179,179,193	4,97,78,481	5,749,887	11,20,29,433
1913-14	1,45,68,55,790	177,064,757	5,07,80,519	5,693,919	10,08,74,333
1914-15	1,50,52,65,200	176,190,358	5,25,30,534	5,682,898	9.72,99,850
1915-16	1,55,45,97,700	175,171,829	5,45.29,991	5,665,349	8,82,51,650
1916-17	1,62,86,03,073	174,144,724	5,74,23,729	5,647,491	8,30,41,600
1917-18	2,88,98,17,784	236,957,575	9,34,66,322	9,938,905	....

Before the last Great War there was no specific sinking fund created for the repayment of the Loans of the Government of India. Owing to the creation of a considerable amount of short term indebtedness for War purposes both the interest and redemption policy had to be altered. The interest increased from the pre-war average of $3\frac{1}{2}$ p. c. to 4 p. c. in 1915-16 to $4\frac{1}{4}$ p. c. in 1916-17 and to 5 p. c. thereafter, besides some amounts borrowed on three, five of ten years bonds at $5\frac{1}{2}$ p. c. The Treasury Bills also carried similar interest varying between 4 and 5 p. c. The larger War Loans were made payable after a definite period of 30 years; and, in order to give greater security to the investor, they were made irredeemable for ten years after their floatation. In the Budget Statement for 1919-20, in view of the considerable deficit

anticipated for 1918-19, no appropriation was made from the Revenue to the Sinking Fund account for the discharge of British War Debt for which India had taken over the liability.

The amount of Interest transferred to the Railway and Irrigation Sections depends: **Firstly** on the capital Expenditure; Secondly on the actual payment of interest on that portion of the debt which has been incurred specifically on account of the construction or purchase of Railways or Irrigation Works; and, thirdly on the rate at which interest is charged on that portion of the debt which has not specifically raised for the above or other purposes. For this adjustment the usual practice is to adopt the average rate of interest actually paid for the whole of the non-specific debt in the latest year for which complete accounts are available. The result is that the rate adopted for calculating the revised estimate for a year generally differs slightly from that used for the Budget estimate for the same year. This accounts for the difference between the two estimates apart from the natural difference caused by the Capital Expenditure *

LXXXIX. THE PRODUCTIVE DEBT OF INDIA.

Ever since 1867 when the policy of borrowing for productive purposes was first introduced, the Government of India have remained heavy borrowers for such purposes. In the earlier years when the Railways were a losing concern the Government policy of borrowing naturally excited some comment; and the defects in the system of accounts, bringing about a needless confusion by frequent transfers from Productive to ordinary Debt and vice versa, by meaningless distinction between Ordinary and Extraordinary outlay, gave point to the criticism. Later on the Exchange troubles led to acrimonious controversies about borrowing in England and adding to the sterling obligations thereby. Since the beginning of the present century, owing to the profits shown by the Railways and Irrigation Works, the dispute about the wisdom of borrowing has lost much of its old interest. We have already discussed, in connection with the sections dealing with Railways and Irrigation, the extent to which borrowing would still have to be resorted to, as well as the justification of that policy in the past. Here we need only observe that the present attitude towards this question does not look upon borrowing as such as reprehensible, while the limit of borrowing is to be found only in the extent to which the money markets of the world would subscribe the funds.

But connected with this question of borrowing for Productive purposes, is the more difficult problem of the market for borrowing. The company's

* All loans, with the exception of those specifically raised for Railways, are first treated as ordinary debt; at the end of each year the amount actually spent for productive purposes is ascertained, and is transferred, as noted above, to the head of Productive debt, the remainder only being treated as ordinary or non-productive Debt. Of recent years, the sums transferred from Ordinary to Productive Debt have usually been considerably larger than the total of the loans actually raised during the year, the funds obtained by borrowing being supplemented from sources like Revenue Surplus and Savings Bank Deposits. The changes in accounts introduced in 1906-7 made a more accurate distribution of capital and Interest between Ordinary and Public works Debt, which led to a more rapid reduction of the Ordinary Debt.

Government usually borrowed in India whether from its own servants or from the general public. But since the introduction of the guarantee system for the Railways, the practice of borrowing in England on á large scale every year was started, and continues even to-day, but for the stop put to it by War conditions in England. It was assumed that the conservatism of Indians, coupled with their want of familiarity with the new undertakings would render the prospects of borrowing in India too slender to be thought of; and on this assumption —not entirely without foundation—upto 1880 no effort seems to have been made at all for borrowing in this country. The question had, however, to be reconsidered after that date in view of the continued fall in the gold value of the rupee, and the consequent increase in the Interest charge to be paid in gold on the sterling loans. In his Financial Statements Sir E. Baring distinctly urged the undesirability of borrowing in England, as it would introduce a most unwelcome element of uncertainty in the finances of the country. The Government were genuinely alarmed at the size of their gold obligations, and a Parliamentary Committee of 1889 authoritatively put on record the political and financial advantages of borrowing in India, if only the requisite funds could be forthcoming in the country. That body, however, recommended, that if the difference between the rates of interest in India and in England were so considerable as to afford compensation for the disadvantages attendant upon borrowing in England, loans should be raised in England to enable the Government of India to carry out their general scheme of works undertaken for the public benefit.* Since that time, with the exception of two loans raised in 1885 and 1886 for £7,700,000 which were for a rate of interest, sufficiently low to afford compensation for the disadvantages of borrowing in England, no loans have been raised for specifically productive purposes. Such borrowing, as has since 1875 taken place in England, has been for the purchase of specific Railways, or for advances to Railway Companies which would otherwise have borrowed in England by raising debentures, or for paying off an existing sterling loan in order to reduce the charge for interest.† These, in magnitude, have been very considerable; but the present policy of applying all revenue surplus to such works as need capital outlay and are expected to yield a net return after paying all working expenses and interest charges has saved additional borrowing in England. The Mackay Committee has recommended since 1908 further borrowing, when required, for productive purposes, in England.

It has already been observed that the distinction between Rupee debt held in India and the sterling debt held in England does not necessarily correspond to the debt held by Indians and that held by Europeans. According to Mr. Jacob's

* See Welby Commission. para 116 loc. cit.

† In 1893-4 a loan of £6,00,0000 had to be raised in England as in that year the Secretary of State could not obtain the money needed for the Indian Home charges by the ordinary methods of sale of Bills. It was estimated by the Government of India in 1895 that whenever any single year they wanted to borrow more than 5 crores, the Indian money market would not be equal to the strain, and recourse must be had to borrowing in England. "The security" says the Welby Commission, "of the Government of India is too good to induce Indian capitalists to invest in Government stocks, for the interest offered by Government is lower than that which can be earned on good investments in the country. If money borrowed in India is to any extent found in England, the advantages of borowing in India are proportionately neutralised, for in vestors here will only subscribe on terms which will, in their opinion, secure them from the fluctuations of Exchange.

calculations as placed before the Welby Commission, out of the total debt of Rs. 103 crores borrowed in India, Rs. 25 crores was held in England, Rs. 48·00 crores by Europeans in India, leaving only about Rs. 30 crores as held by the natives of this Country. The whole of the sterling debt is held by Europeans even to-day. In 1901 it was estimated that about 58.8 p. c. of the rupee debt, including Rs. 19.29 crores held in England. was held by Europeans and about 41.2 by Indians. In 1911 the percentage held by Indians was estimated to have risen to 47.* To-day, after the huge war loan operations of 1917-19, we may estimate that 60 p. c. or more must be held by Indians, leaving only 40 p. c. or less to be held by Europeans.†

The existence of our sterling debt, and the pre-war practice of borrowing large sums in England, combined to prove to us that the possibilities of the Indian money market have not been sufficiently considered by the Government of India. Before the War the Government had estimated that in any single year more than Rs. 5 crores could not be borrowed in India with ease; and so every programme of borrowing in excess of that sum was placed before the international financiers of Europe. During the War in the very first year Rs. 6 crores were raised, without any great pressure or any considerable improvement in the rate of Interest; and in the years that followed Rs. 25 to 40 crores could be raised in a single year without much difficulty, over and above considerable amounts borrowed for short periods on Treasury Bills. There was, indeed, evidence of undesirable pressure in some quarters, and considerable improvement in the Interest allowed. But, making due allowance for these factors, the fact still remains that for any object, which could appeal to the masses of the Indian people, or in which Government takes special interest, the limits of available funds in India are by no means quite so low as was once assumed by the Government of India. ‡ Again, by a travesty of argumentation, it used to be maintained that the credit of the Government of India is too good, the interest offered by them too low to attract Indian capital. But if the security offered by the Government of India was so very good it would be specially important to give its benefit to the people of the country in the first instance, if necessary, by raising the rate of Interest; for even if the rate of interest be high, if paid in India, the Economic problem would not have been quite so acute as it did become by the constant addition to the sterling debt. In any case, the fact remains that **the Government of India**, apart from the War, **has never seriously tried to investigate the possibilities of the Indian money market,** and, *a fortiori* never attempted to develop those possibilities such as they are. The result has been that while the Government seem to have escaped a probable burden of a slightly heavier rate of interest, the industrial and commercial community has had to bear that burden of higher rate to the prejudice of the country. If the Government of India, while borrowing themselves every year,

* See the last Decennial Report on the moral and material Progress of India, p. 163.
† This last is a near guess based on the Financial Statements of 1916-17 to 1919-20.
‡ The fact that in 1920 the whole of the Bombay Development Loan of Rs. 9 crores was taken up exclusively by that Presidency is the latest proof of the yet untried possibilities of the Indian money-market.

had paid any attention to the development of financial institutions like Banks in India; if the Banks had been encouraged to attract and collect the realisable wealth of the country for investment in productive enterprise under the patronage of the State; if the necessary degree of mobility had been imparted to the landed and industrial wealth of the country by Land-mortgage or Industrial Banks, there is every reason to believe that the need for borrowing abroad would have been obviated to a very large degree. Suggestions were made more than a generation ago to attract Indian capital by means, if necessary, of a British Government guarantee of the Indian public debt. But high authorities in Indian finance set their face against such an idea, and the proposal was ruled out of court. * To-day the Indian investor has learnt to appreciate the value of industrial investment, and he needs no exterior guarantee to induce him to invest in Government securities. The danger rather is that, being unfamiliar with the wiles of the company promoter, he may be victimised, unless Government creates institutions like an Industrial Bank to aid him in selecting investments. If the Government should attach to the proposed Imperial Bank a branch for Industrial, and another for Agricultural, finance, there is every reason to believe that the need for foreign borrowing would disappear altogether.†

XC. A PROPOSAL FOR PURCHASE OF STERLING DEBT.

At the present time. in view of the Exchange difficulty, the suggestion may be hazarded that the Government of India can and should undertake a policy of buying out the Indian debt held in sterling in England. Though we have paid for them at the rate of £ 1=15 Rs, our own sterling securities in the gold Standard and the Paper Currency Reserves have depreciated till they are not worth half the amount in rupees that was paid for them. India, however, continues to show unmistakable signs of general prosperity, as evidenced by the heavy balance of trade in her favour; and the need for her raw materials and foodstuffs for the exhausted and reconstructing peoples of Europe is so great, that we need apprehend no reversal of these favourable conditions for some ten years or more.‡ The heavy balance of trade in our favour, combined with the impossibility of finding sufficient gold to pay India for her excess of exports; and the appreciation of

*. Said Sir J. Strachey in the Financial Statement of 1880-81 "I can imagine few greater misfortunes to India than the loss of her financial independence and the acceptance by England of the financial responsibility for her Indian Empire. It would signify to India the loss of control over her own affairs in every department of her administration, the possible subordination of her interests to those of a foreign country, and the substitution of ignorance for knowledge in her Government. Although some rare instances may be found in which, when there seemed to be a conflict between English and Indian interests, it may perhaps be doubted whether India has been treated with perfect fairness, there can be no question, that on the whole, the Government of India has been carried on with as honest and thorough a regard for Indian interests as if India had a separate national existence of her own.....These fortunate results have however, been due not only to the justice but also to the wisdom with which she has left to India a separate, financial responsibility. England has felt that it would be no kindness to take upon herself burdens which India now bears, to guarantee Indian debts, pay for Indian wars, relieve Indian famines."

† We have already mentioned in the previous part that unknown quantities of available capital remain unused in the form of public charities, religious endowments, monastic or other hoards. It would be the duty of an Imperial Bank to try and attract this otherwise idle and injurious wealth for purposes of material improvement. If the Bank takes the matter in hand it can realise the ideal much more easily than the necessarily high handed action of the Government.

‡ This was written in February 1920 since then the ill-advised haste of the Government of India to give effect to the recommendations of the Currency Committee, and their mad venture for the sale of Reverse Councils has entirely reversed the situation. We still feel convinced there is no occasion to fear intense trade depression in this country, so long at least as the war—wasted regions of Europe are not fully reconstructed, if only the Government of India would give us an honest currency system if only we could have our foreign exchanges immune from the amateur meddling of incompetent financiers.

the rupee due to the scarcity of silver supplies has brought about such a state of Exchange as to make our sterling indebtedness worth half the amount in rupees or less. The Budget Estimates for 1919-20 give our total sterling debt at £194,142,575, for which a sum of 150 crores, at the present rate of Exchange would be quite sufficient. If we take our average balance of Exports at £80 millions, or, deducting Home charges, at £50 millions, three years' balance would suffice to take up all our foreign indebtedness. If the British Government could be induced to mobilise the sucurities of the Indian Government held in England—as they did in the case of American securities held in England to meet the difficulties of the Anglo-American Exchange—and sell the same in this country the present exchange difficulty would be considerably modified, if not eliminated altogether, at the same time that it would help to cancel India's sterling indebtedness. Incidentally, if the whole transaction were entrusted to the proposed Imperial Bank, it might be availed of to bring about a quiet but effective change in the standard of the country, from silver to gold.

FORMS OF DEBT AND SECURITIES.

Rupee Debt.

The existing Rupee loans are of two kinds :— (a) Those which the Government has undertaken not to repay before a certain fixed date, but which are repayable at the option of the Government at any time after that date, after giving notice ; and (b) those which Government has undertaken to repay (i) either on a certain fixed date or (ii) not earlier than a certain fixed date and not later than another fixed date. The following are the rupee loans now in Existence :—

(a) NON-TERMINABLE.

Name		Conditions	Amount.
1. $3\frac{1}{2}$ per cent. of 1842-3	..	......	20,94,86,000
2. $3\frac{1}{2}$ per cent. of 1854-5	..	Repayable at the option of	29,43,39,000
3. $3\frac{1}{2}$ per cent. of 1865	..	the Government after 3	34,13,09,000
4. $3\frac{1}{2}$ per cent. of 1879..	..	months notice.	3,41,37,000
5. 3 per cent. of 1896-7 ..	..		6,83,29,000
6. $3\frac{1}{2}$ per cent. of 1900-1	..	Repayable not before 31-12 1920 and thereafter at Government option after 3 months notice	31,46,03,000
		Total ..	1,26,22,03,000

		Rs.
1. 4 per cent Terminable Loan of 1915-16	Repayable not before 30th November 1920 and not later than 30th November 1923.	4,99,86,000
2. 4 per cent. Conversion Loan of 1916-17.	Repayable not before 1st. October 1930 and not later than 1st. October 1936	9,97,32,000
3. 5 per cent. War Loan, 1929-47.	Repayable not before 15th August 1929 and not later than 15th August 1947.	25,00,35,000
4. 5½ per cent. War Bonds, 1930.*.	Repayable on the 15th August 1930.	19,79,07,000
5. 5½ per cent. War Bonds., 1922.*	Repayable on the 15th August 1922.	11,94,64,000
	Total.	77,68,56,000

(b) TERMINABLE LOANS.—concld.

Name of loan.	Conditions of repayment.
6. 5½ per cent War Bonds, 1921.	Repayable on the 15th September 1921
7. 5½ per cent. War Bonds, 1923.	Repayable on the 15th September 1923
8. 5½ per cent. War Bonds, 1925.	Repayable (at Rs 103 per cent.) on the 15th September 1924.
9. 5½ per cent. War Bonds, 1928.	Repayable (at Rs. 105 per cent. on the 15th September 1928.

There are also in existence a few special Loans, much as certain Railway Loans taken up by 3 Indian chiefs and a special 4 p. c. Loan taken up by the Maharaja of Gwalior in 1887, amounting in all to a little over Rs. 4 crores.

THE STERLING DEBT.
on 31-3-1918.

1. India 3½ per cent. Stock	not redeemable upto 5-1-31, and thereafter on one year's notice.	90,519,304
2. India 3½ per cent. Stock.	Not until 5-10-48 and thereafter on 1 year's notice.	65,26,9,189
3. India 2½ per cent. Stock	Not until 5-10-26 and thereafter one year's notice ..	11,684,987
4. India Bonds, 1911	Reduceable by $\frac{1}{8}$ every year of the total of £ 4,000,000	500,000
5. E. I. Ry. Debenture Stock 4½ p.. per cent.	....	1,435,650
6. E. B. Ry. ,, ,, 4 per. cent.	......	348,666
7. S. I. Ry. ,, ,, 4½ ,	....	425,000
8. G. I. P. Ry. ,, ,, 4 ,,	....	2,701,450
9. Non. Interest bearing Debt.	....	14,921
	Total £.	172,899,167

N. B.—*The interest on the loans marked * is exempt from income-tax, but not from super-tax. These Bonds will be accepted at par during their currency, as the equivalent of cash for the purpose of subscription to any future long term loan, whatever its rate of interest may be.

The remainder of the Indian sterling debt consists of so much of India's War contribution as has not been liquidated from the proceeds of the War Loans of 1917, 1918 and 1919, this being taken at £20 million make up the Budget total of £194 million in round figures.

The three main forms in which the rupee debt is held are: (i) Stock or Book Debt; (ii) Bearer Bonds; and (iii) Promissory Notes. When the debt is held in the form of Stock the owner is given a certificate to the effect that he has been registered in the books of the Public Debt Office as the Proprietor of a certain amount of Government stock. This certificate is known as a **Stock Certificate** and hence the name of the Debt. In the second case, the **Bearer Bond** certifies that the Bearer is entitled to a certain sum of rupees in respect of the Loans to which the Bond relates. A **Promissory Note** contains a promise by the Governor-General in Council, on behalf of the Secretary of State for India to pay a certain person a specified sum on a specified date or after certain notice, according to the terms of the particular loan to which the Promissory Note relates, and to pay interest thereon at certain rates half-yearly on certain specified dates. Each of the above forms of security is convertible by the holder into either of the above two.

During the War two new forms of securities have been created. **Treasury Bills**, when issued, are in respect of temporary borrowing by the Government of India and usually have a currency of from 3 to 12 months. They are issued in the first instance at a discount, equivalent to the interest on the face value of the Bill for the period for which the Bill is issued, and are at maturity paid their full face value, the difference representing the yield to the investor. The lowest denomintion issued is for Rs. 5,000 a sum suitable for Banks, shroffs and other large merchants, but too large for the ordinary Indian investor. As a rule on maturity the old Bills may be exchanged for new ones of like amount, unless the holder desires payment in cash. The Treasury Bill sales and payments are managed by the Presidency Banks. On the other hand the Post Office Cash certificates.* are specially intended to facilitate the investment of small amounts and to encourage saving among people of small incomes. They have a currency of 5 years on the expiry of which they are to be repaid. As they are issued for an amount less than their face value, the difference constitutes the profits to the investor. They are issued in the denominations of Rs. 10,20,50, 100 and 500 on payment of Rs. 7-12, 15-8, 38-12, 77-8 and 387-8 respectively. The maximum amount of certificates that can be held by any individual is Rs. 10,000 mominal value. The investor's money, however, is not locked up for the full erm of 5 years. He can, if he wishes, obtain payment at any time during the urrency of the Certificate, and in that case receive an amount which, according to the time he has held the certificate, gradulally increases at compound interest from the original purchase price up to the full face value of the certificate at the

* Lord Cromer tried to attract the small Investor by cash notes as early as 1882 but without success.

end of five years. The profit to the investor is free from Income Tax, and the certificates are sold at all Post offices all the year round.

XCI. CONVERSION SCHEMES DURING THE WAR.

We reserve for the next part an account of the War Loans during 1915-20; but here we may mention the scheme of conversion adopted by the Government in 1916. In the past most of the conversion schemes were undertaken with a view to reduce the interest charge ; and so, whenever possible, Government offered the alternative of paying off the debt or issuing fresh stock at a lower rate. In the War period, however, the higher rate offered for the War loans required some corresponding facilities for the conversion of the earlier debt carrying lower Interest. Without undertaking the obligation of converting the whole of their $3\frac{1}{2}$ p. c. debt into one of 4 p. c. the Government in 1916 offered to the subscribers to the new loan, carrying interest at 4 p. c. and redeemable in 10 or 15 years at the option of the Government, an option to convert an equivalent amount of $3\frac{1}{2}$ p. c. or 3 p. c., at a rate to be fixed, into 4 p. c. redeemable loan, the offer to remain open for the two following years in regard to any public borrowing by them. The rate for $3\frac{1}{2}$ p. c. paper was fixed at 74. The great difficulty in this conversion scheme was that it was restricted only to the subscribers to the new Loan, and for an amount equal to the figure subscribed towards the new Loan. In the subsequent Loans similar facilities for conversion were granted.

Since the above was print, the Budget of 1921-22 has set afoot a special scheme of conversion and redemption. In view of the continually rising rate of interest anxiety was displayed, on behalf of the holders of the depreciating securities, during Budget discussions, in the Imperial Council. In response the Government have created a special sinking fund of Rs. 80 lakhs a year for buttressing the War Loans. It was rightly urged against this scheme that it made an invidious distinction between the holders of different classes of Government se curities, all the more objectionable because the investers in the War-loans knew, when they invested, that they were subscribing for powder and shot, which when fired, would leave no realisable assets; while the holders of the earlier securities of $3\frac{1}{2}\%$ or 3% were, at the time they invested, advancing against profitable, productive assets. Besides the bulk of the holders of the earlier, and relatively more depreciated securities, are minors, widows trustees and charitable institutions. It might reasonably be expected that Government should be at least equally alive to the need and service of this less noisy, though more deserving, class of public creditors. The expedient of two non-official committees, one for Bombay and one for Culcutta, is scarcely calculated to afford a fair and an acceptable solution of this important question of public credit.

PART V.

THE WAR FINANCE IN INDIA AND THE PEACE BUDGET.

XCII. The Nature of War Costs.

The proper principles which ought to govern the financing of a big War have never been clearly worked out in this country. The unfortunate practice, so common under the Company's regime, of meeting all extraordinary expenditure by borrowing, was no doubt modified by the first Finance Ministers of India under the crown. But in every case of sudden emergency caused by War, or Famine, the later Finance Ministers of India have had recourse to borrowing, perhaps because they exaggerated the political danger of additional taxation. possibly also because they were naturally unwilling to invite too close a criticism of their methods of financing, as they were afraid their objects would not stand a very close criticism. During the last great War, the magnitude of the struggle as well as India's being only indirectly involved in it made the perception of the true nature of War financing still more difficult. We in India were not suffering from any of those evils of actual warfare within a country, such as destruction of private property under stress of military operations, which escape being included in the account of War costs, as represented by the money spent upon the conduct of the War, but which seriously impair the productive capacity of the countries thus suffering. To a certain extent India did suffer from a diversion of her trade owing to War restrictions and the shortage of freight; but this loss was more than counter balanced by the gain attendant upon high prices and increasing quantities of her exports demanded by the belligerents.* We had not to face that other serious factor in the true War costs—which nevertheless is not accounted in financial figures recorded by the Exchequer—a conscription of our Labour Force for War purposes, and the consequent manning of the industries by relatively inefficient labour to the grave prejudice of the country's wealth. If "the real costs of the War to the nation consist, not in the things that are actually absorbed in the War, but in the things—including the leisure of some of its work-people—which the country has to do without in order that these things may be provided" † it must be admitted that the effects of the War upon India have been slight and indirect.

* The Trade Returns, however, show that the increase in the prices if Imports was much greater than that of Exports. The quantities exported also fell off. The gain is, therefore, not quite so large in reality as it appears by a superficial studig of values only in the Trade Returns.

† Pigou, Economy and Finance of the War, p. 14

XCIII. A BRIEF REVENUE OF INDIAN FINANCIAL CONDITIONS 1915-19

The Financial Statement of 1915-16 was the first after nearly forty years to be prepared under War conditions of a very serious kind. Though in the first year India was not directly concerned in fighting, beyond the dispatch of an Expeditionary Force to France, the financial system of India was not immune from the effects of the world conditions. The Indian Currency system, for example, required the closest connection with the the central money market of the world: while for great projects of internal development India relied upon borrowing in the same centre. The trade of India, moreover, was in increasing quantities with the whole world, which must, therefore, inevitably suffer by the unavoidable restrictions of the War. The out-break of the War, however, found Indian finance in a remarkably strong situation. The Treasury balances in India and in England were a million and a half sterling in excess of the estimate. The agricultural outlook was favourable, and the Banks were well provided with funds. Hence when the War first broke out, the one problem that the Government of India had to face was to support Exchange. Those desiring to remit their capital to England found that the dislocation of trade, consequent upon the depredations of the German cruiser Emden, and the fright taken by the Indian middlemen, had left exchange so unsupported by Trade balance that they could not remit at any thing like par rates without the intervention of the Government. In accordance with the recommendations of the Chamberlain Commission on Indian Currency and Finance, the Government offered to sell Reverse Bills on the Secretary of State for India in Council at a specified minimum rate to the extent of £1,000,000 a week. At the cost of about £ 8.7 million sold between August 1914 and March 1915 the Government managed to keep the Exchange steady. These Bills were met in England by the balance in the Gold Standard Reserve. At home in India there was a rush (a) for gold coins and (b) on the Savings Banks Deposits as well as (c) Currency Notes. Nearly £1.8 million were withdrawn before the Government intervened to stop further drain on their very slender stock of gold, and so refused any gold for internal purposes. Those who desired a withdrawal of the Savings Banks Deposits or conversion of currency notes were given every facility, and the total withdrawals amounted to £7 million, while the diminution of the note circulation was about 7 crores. But for these difficulties the first year of the War brought no serious anxieties. India had not to proclaim any moratorium or suspension of payments, nor afford any extravagant carte blanche to banks or other institutions.

The Government of India took their cue from the Home Government in believing that the War would be of short duration, and therefore made no permanent provision for the deficit caused by the War. The Budget for 1915-16 estimated an aggregate excess of expenditure over Income of £3.8 million of which £2.8 million was on account of the Imperial Government while the rest was accounted for by the Local Governments being allowed to over draw to the extent of £1

million their balances with the Government of India. The ordinary Revenue and Expenditure account were left substantially unchanged. The Imperial deficit of 2.8 million and the Provincial deficit of £1 million; the railway programme reduced to £8 million, and Irrigation programme of £1.1 million; the purchase of £1 million debt in connection with the East Indian Railway account and a provision of another million for a possible withdrawal on account of the Savings Banks Deposits; the £7 million of India Bills raised in 1914 by the Secretary of State and repayment of the Loan of £7 million from the Gold Standard Reserve gave the total of £28½ million obligations. Against these the Government decided to renew the £14 million of temporary debt in England (£7 million) and India; a fresh loan of £6.5 in England either directly by the Secretary of State or through the agency of the Railway Companies working certain State lines; an incursion on the cash balances for £4.5 million and on the Famine Insurance Grant for .5 million; and a rupee loan for £3 million in India. With these provisions the necessity for fresh taxation was avoided* and the pre-war standard of ordinary Expenditure was maintained at the cost of slight reduction in the expenditure on capital account.

These calculations, however, were destined to be considerably upset by the prolongation of the War all throughout the Financial year 1915-16, and the absence of any reasonable prospect at the commencement of the year 1916-17 of its early termination. The proposed borrowing of £6.5 million in England, for example, could not be carried out, the Secretary of State succeeding in raising only £3.1 million. Rigid economy in all departments of the Government, except the Army, had to be ordered; capital expenditure had to be reduced, on Railways from £8 million to £4.9 million, and on Irrigation Works from £1.1 million to .9 million. In spite of trade depression at first, the rise in prices led to a considerable revival later on; and though the Budget revenues rose from £80.4 to £82.62 million, the Expenditure rose from £84.435 million to £85.264 million. The deficit, therefore was £2.644 million; and, if the same basis of revenues was continued for 1916-17 the loss at the end of 1916-17 would be £2.96 million in addition. It was evident that such a system could not be tolerated in view of the fact that there was no probability of the War coming to a close during 1916-17 while there was temporary debt of considerable dimensions. It was, therefore, decided to add to the existing taxation so as to increase the revenues by £3.6 † as against an estimated Imperial deficit of £2.6 million leaving a

* Said Sir Wm. Meyer in the Financial Statement: We do not propose to raise any money by increased taxation on this occasion. We should not hesitate to do so to meet a deficiency in revenue which promised to be of a more or less abiding character. But the present circumstances are altogether peculiar. We know that ordinarily, we can count on surpluses. India, too, has a very small unproductive debt; and, with trade conditions depressed, and the present abnormal rise in food prices, we have come to the conclusion that we ought not to add to existing taxation unless it is absolutely necessary." Financial Statement 1915-16, para 54.

† This sum was made up of :—

	Million pounds.
(1) Customs and consequential changes in Excise	£2.15
(2) Salt duty increase	£ .6
(3) Income Tax changes	£ .9
For fuller details see below	3.65

surplus of a little over a million sterling. Against this must be set off an estimated Provincial deficit of £ .4 million, Railway capital outaly of £ 3.0 million, Irrigation £ .9 million, Delhi £ .3 million and the discharge of debt £ 2.0 million or a total of 6.6 million in excess liabilities. Allowing for the Budget surplus, there would still be an excess of liability over assets of about £5.5 million, which it was proposed to meet by a fresh rupee Loan of £ 4.3 million, use of cash Balances to the extent of £ .3 million and unfunded debt to a like extent, a deduction of £ .2 million from the Famine Insurance grant, and, £ .4 million from Special War Receipts, thus bringing about an equilibrium.

From the beginning of the calendar year 1917 the situation had changed in two important respects, affecting most vitally the Indian Financial system as a whole. The rainfall had been extraordinarily good in 1916; and there was continued demand, even at increasing prices, of India's exports by the belligerents. The Government of India were incurring heavy obligations on behalf of the Home Government by financing their purchases and other War services; in stead, therfore, the Government of India being debtors to England in respect of the Home charges, of about £20 million annually, they were actually creditors of very large amounts in respect of these obligations.* The old methods of meeting India's usually favourable balance of trade were now either unavailable or inadequate, especially as the balance was getting heavier every month, while the export of gold from other countries to India was impossible as much by war restrictions, as by the dangers attending transport. After the first slight rush for Reverse Councils, trade conditions had so asserted themselves that all throughout the year 1916 there was a continued and increasing demand for Council Bills on the Government of India to be paid in rupees. The price of silver was gradually improving; and, in spite of heavy coinage operations, the Government of India were feeling the strain on their rupee cash balances. In November 1916 it was clear that the Treasury could not meet this drain and so a notification had to be issued reducing the sale of Bills to Rs. 80 lakhs a week, subsequently lowered to 60 lakhs. In January 1917 the exchange was raised to 1s. 5d. the rupee. In July following, Government took entire control of all imports of gold and silver to conserve the stock of specie, while instructions were issued to Exchange Banks not to finance exports except those which were strictly necessary for the prosecution of the War by preference, and for the rest demand the fullest cover. Trade was thus severely handicapped by the scarcity of remittance in the form of Bills or bullion. Altogether in this respect the situation was so completely altered that instead of the expected demand for Reverse Bills during a crisis, there was a continuous heavy demand for Councils so great that Government had to adopt every measure they could think of to ease the strain and maintain the Exchange.

* The Recoverable Expenditure on account of the Home Government was, in round figures, £10 million (in 1915-16,) £38.5 million in 1916-17, £ 73.3 million in 1917-18, and £80.0 million, in 1918-19. The same was estimated at £ 86.0 million in 1919-20. The following table shows the balance of Trade and councils sold. The figures are in crores of rupees and, in the first case, show a net excess of exports of merchandise over imports.

1915-16 ..	61.31	30.36
1916-17 ..	87.06	49.04
1917-18 ..	80.54	50.63
1918-19 ..	61.87	28.65

The other important change was in the case of Revenues and Expenditure of the Government. The Budget estimate for 1916-17 was for £ 86.5 million revenues, and £ 86.027 expenditure; in the revised estimate it was found that the revenues would amount to £96.7 million, and the ordinary expenditure to £89.45 million. * The continued prosperity in trade, combined with the increased prices had caused a boom in the Railway revenues, which accounted for £ 4 million excess, the customs which showed an excess over estimate of .65 million, and the Income Tax showing an excess over estimate of £ .35 million. The increase in expenditure was largely due to increased Army charges. On Capital account the estimated expenditute of £ 6.6 million was increased to £15.8 million, chiefly on account of the repayment of debt which was budgeted for at £2 million, but which eventually amounted to £ 11.6 millions.

In the next year 1917-18 the features noticed in the preceding year were intensified, but no new factor entered materially to affect the situation, with the exception of the decision to make a Contribution of £ 100 million towards the War cost of the United Kingdom. This decision was arrived at in 1917 and had been incorporated in the Budget for 1917-18 leading to a very active, in some cases undesirably active, compaign for subscriptions to the War Loan. The Revenue for 1917-18 was estimated at £ 98.8 million; it actually amounted to £ 110.4 million. The expenditure had been budget at £ 98.8 million; it actually amounted to £102.3 million. There was thus a surplus of £6 million odd which was considered sufficient for all needs, and so no additional taxation was imposed. The principal items in the increase of Revenues were: Railways, Salt, Income Tax and Customs, while the bulk of the increase in Expenditure was accounted for as usual by the Army. The only point of interst in the 1917-18 financial history was in connection with Ways and Means. The ordinary transactions under this head amount to between £ 20 and £ 30 million. Owing to the Receipts under the War Loan, and the expenditure incurred by our government on account of the Home Government, they amounted to £ 111 million. The War Loan proceeds provided £ 36.5 million, Treasury Bills £30 millions; Revenue excess £31.5 million, Coinage £13 million. The Ways and Means section continued to occasion anxiety also in the last and the closing year of the War during which £78 million had to be provided for, of which it was proposed to meet £ 22.1 million out of revenues, £ 20 million from Loans, £13 million from specie coinage; £ 16 million from further investment in the Paper Currency Reserve and £ 5 milllion from balances. The War Loan of 1917-18 had realised Rs. 47 cores, or £ 31.4 million out of the promised £ 100 million, so in the closing year 1918-19 the Loan programme was continued with slight modifications.

* All the War years furnish one more proof of the old criticism, that the estimates of the Government of India display anything but a good financial workmanship. The excuse that Indian finance is a gamble in Rains and Railways has now very little justification, particularly as the items showing the greatest variations are not affected by Rains very much. The principle of cautious budgeting seems to be carried to an unreasonable excess.

In September 1918 it was resolved to make a further contribution of £45 million, under certain restrictions.

XCIV. ANALYSIS OF REVENUE AND EXPENDITURE 1914-15 TO 1918-19.

After this brief review of the principal features of the War period financing in India, we may next proceed to a more detailed study of the Revenues and expenditure.

The following table gives totals of Revenue and Expenditure.

	Revenue.					Expenditure.				
Estimates	1914-15	1915-16	1916-17	1917-18	1918-19	1914-5	1915-16	1916-17	1917-18	1918-19
Accounts	81.15	84.41	98.05	112.66	..	82.94	85.60	90.57	104.57	..
Revised Estimates	80.15	82.50	96.75	111.40	121.5	85.11	85-26	89.45	89.45	125.85
Budget Estimates	85.07	80.34	82 55	98.85	108.34	87.02	84.18	85.51	93.81	106-14

The figures are million sterling.

If we compare these figures to the pre-war standard of 1913-14 we find that the total Revenues have increased from £85.20 million to £120 million, or a net increase of 42. p. c. Compared to the increased demands upon the revenues during the War in countries like England this increase seems to be insignificant. * The Expenditure has increased from £ 82.89 to £ 125 million or over 50 p. c. If we compare the details of the following tables show the increases in the Principal sources of Revenue and the chief head of Expenditure between 1913-1918.

REVENUE (ACCOUNTANTS) IN THOUSANDS STERLING.

Sources.	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19	Increase.
Land Revenue ..	21,391	21,221	22,031	22,041	21,607	20,945	—2%
Opium	1,624	1,572	1,913	3,160	3,078	3,229	+180%
Salt	3,445	3,910	3,647	4,826	5,499	4,176	+19.5%
Stamps ..	5,318	5,082	5,433	5,776	5,727	5,896	+11%
Excise	8,894	8,856	8,632	9,215	10,161	11,547	+30%
Customs ..	7,558	6,347	5,873	8,659	11,036	12,603	+.67%
Assessed Taxes .	1,950	2,036	2,090	3,773	6,308	7,300	+375%
Forests ..	2,229	1,980	2,074	2,470	2,731	2,910	+30%
Other heads ..	1,333	1,095	1,128	1,128	1,125	1,154	+12%
Interest ..	1,352	1,023	1,096	1,136	2,170	4,020	+300%
Posts & Telegraph	3,598	3,596	3,787	4,174	4,616	5,323	+30%
Mint	339	69	102	690	517	1,716	+500%
Civil Department Receipt ..	1,408	1,505	1,579	1,739	1,935	2,086	+50%
Miscellaneous ..	772	677	679	847	4,868	5,771	+750%
Railways : net ..	17,625	15,799	17,977	21,313	24,141	25,347	+50%
Irrigation ..	4,713	4,680	4,779	5,155	5,063	5,402	+15%
Other P. W. ..	298	288	304	309	323	332	+11%
Mil. Receipts ..	1,369	1,374	1,241	1,575	1,720	1,713	+25%
Total ..	85,207	81,157	85,602	98,050	112,662	125,851	..4

* The figures for 1918-19 are the Revised estimates for that year, which in the Accounts show appreciable improvement in the important heads. For all other years the figures are the Actuals or accounts for that year.

On the Revenue side we find that, taking each item, the greatest proportionate increase as shown by the table in the margin. Of these the receipts from the Mint and Miscellaneous sources are extraordinary, and cannot be relied upon in permanent finance. Quantitatively they are also insignificant. Opium is inflated by high prices; but as the Chinese monopoly revenue has practically ceased this may probably be taken as a more permanent increase. The greatest quantitative increase is under the heads of Railways Customs, Excise, Income Taxes. Of the increase of £40.644 million in the Revenues, Railway contributed 7.722 or nearly 19%; Customs continued 5.045 or 12%; Income Tax; 5.350 or 13; Excise 2.653 or 6%; Interest £2.668 or 6%; Opium 1.605 or 4%; Posts and Telegraphs 1.725 or 4.25 % and the rest 35.75 % by other heads. If we distinguish between tax-revenues and revenues from commercial services, we find that £70.467 million out of £125.851 million was contributed by taxes, including land revenue, or 56 % of the total. (If we exclude Land-Revenue it would be 40 % of the total.) The commercial Services of Opium, Railways, Irrigation, Post Office, Forests, other Pul lic Works, Interest and Mint was £48.279 or 38.5 % of the total, leaving to be made up only 11.5 % by the remaining items. In the pre-War days the tax revenues amounted to £48.556 million out of £85.207 million, or 57 % of the total; if we exclude the Land Revenue the proportion would fall to a little above 33 p. c. The commercial services earned £31.480 million or 37 % of the total, leaving 16% to be made up by the other remaining sources. As between Direct and Indirect Taxes, before the War the former amounted to 2.28 % and the latter 30 % of the total. In 1918-19 the proportions respectively were: 5.87 and 27 % p.c.

Miscellaneous ..	750%
Mint	500%
Income Tax ..	375%
Interest	300%
Opium	100%
Railways	50%
Civ. Dept.	50%
Excise	30%
Forests	30%
Posts &c.	30%
Customs	67%
Mil. Rec.	25%

On the side of the Expenditure the following table shows the principal items and their increases. The figures are in THOUSANDS £.

Heads.	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19 R. E.	Increase.
Direct demands	9,274	8,939	9,467	9,328	9,854	11,676	25.8%
Interest ..	1,515	1,191	1,190	1,174	7,328	7,733	510%
Posts & Tel. ..	3,272	3,257	3,149	3,441	3,567	4,116	25.2%
Mint	132	141	89	167	167	267	100%
Civ. Dept. ..	17,934	18,910	18,868	19,081	20,855	24,474	37%
Mis. Civ. ..	5,403	5,311	5,128	5,414	5,918	6,130	13.4%
Famine Rlf. ..	1,000	1,000	1,000	1,000	1,000	1,000	....
Railways, Interest &c.	12,836	13,641	13,901	13,832	14,227	14,154	10.28%
Irrigation ..	3,532	3,754	3,721	3,549	3,784	3,988	12.5%
Other P. W. ..	7,010	7,177	5,451	4,618	5,048	5,596	—20%
Military ..	21,265	21,809	23,503	26,566	30,768	45,639	114%
Prov. Adjustment ..	282	2,190	131	2,397	2,059	1,073	..
Total ..	82,894	82,942	85,602	90,572	104,575	125,851	52.35%

In these figures quantitatively the most considerable increase was under head of military services which was practically more than doubled. It must be noted, however, that the figures for 1918-19 contain £12.700 million for further assistance from Indian revenues towards the cost of military forces raised in India in pursuance of the Resolution of September 1918. Making allowance for that we still have £33.041 million or an increase over 1913-14 basis of 55%. According to section 22 of the Government of India Act, the application of the revenues of India to defray the expenses of any military operations beyond the frontiers of India was forbidden. By law, therefore, India was not bound to bear any portion of the cost of her troops dispatched to assist the Empire's forces in the European conflict. But under a special reslution of Parliament passed early in the War, India had undertaken to defray the ordinary charges—on a peace footing—of her forces sent to France and other theatres of the War. This explains the very considerable addition in the expenditure under the head of Military Services. Next comes the increase in the item of Interest on Ordinary, Unproductive Debt, which shows proportionately the biggest increase. The heavy loans raised during the War arrested the pre-war process of the steady reduction in the unproductive debt charge, and, instead, increased that charge more than five times. It was in consequence of the decision of March 1917 to make a contribution of £100 million to the War by borrowed funds—over and above meeting the expenses of the increased Indian army for the service of the Empire—that the unproductive interest charge was raised so much. There is next an increase of over £7.25 million in the combined items of Salaries and Expenses of Civil Departments and miscellaneous civil charges or proportionately 31.10 p. c. over the pre-War basis. During the War years proper 1914-1918, there were enforced rigid economies in all departments, and there was not, therefore, the gradual increase under this head conformable to the increase under the head of Military Services, for example. It was rather the result of a sudden spurt, after War economies, in the first peace year of departmental increases and greater salaries that explains the increase under this item.* The increases under the head of commercial services are the result of natural expansion, which would probably be much larger in proportion as the necessity for War economy becomes slighter. It is alleged, not quite without reason, that these services were practically starved during the War, and that consequently in the years immediately following the close of the war, there would be very large demands on the public revenues on these accounts in order to make up for the wastage

*. It is considered by many people in India, competent to judge in the matter, that the new constitutional Reforms are going to prove very costly. If the English officer loses that sense of responsibility and the spur to economy, which has hitherto distinguished some of India's better known Finance Ministers, and the new Indian element is lacking in the necessary experience, these fears would be very largely justified. The only consolation is that if only the out-lay is in the right direction, the initial increases might in the long run prove unimportant. The sense of close scrutiny will be borne along with the sense of public responsibility to the people. At the present moment, however, the signs are by no means encouraging, the Anglo-Indian official hierarchy, being apparently anxious to secure definitely all round increases in salaries before their day of absolute power is over, while the Indian element is either deluded by talk of high prices or is else unwilling to jeopardise larger issues by an untimely exhibition of too rigid a sense of retrenchment. It is to be hoped the future will make the Indian ministers bolder and English officers less greedy.

and depreciation of the War period, and to provide for the resumption of the interrupted, pre-war programmes of expansion. There is, however, room for criticism against the pre-War policy in these branches of public expenditure. We have discussed in the preceding part, in the appropriate sections, the programmes we consider reasonable, as well as the possibilities of further expansion. The increases under other items are insignificant from the stand-point of their permanent effect upon the Budget.

XCV. HISTORY AND DETAILS OF WAR TAXATION.

In introducing the first War Budget it was considered that as the emergency though heavy, was of a temporary character, the anticipated deficit should be met out of temporary and permanent borrowing. In the next Budget, however, the Government felt that in view of the impossibility of raising any great loans in London and the probability of very heavy demands upon the revenues on the termination of the War, it was necessary to make provision for additional revenues.* The sources of revenue selected for manipulation to serve the War needs were briefly : Customs, Salt and Income Tax (*a*) The customs charges, expected to yield £2.1 million took the shape of (i) a rise in the general Tariff from 5 p. c. to 7½ p. c. ad valorem, estimated to yield £.420 million more, making allowance for the decrease in consumption consequent upon higher rates. In the case of sugar, in view of the need to protect the local industry, the rate of import duty was fixed at 10 % and the change was estimated to yield another £ .4 million (ii) The free list was next curtailed very considerably by statute, in place of the old, wide free list based upon positive law and executive concessions. Gold coin and bullion, the current Indian coins certain essential materials for industry and agriculture, and a few other specified articles, like live stock, works of art, books, uniforms, quinine and antiplague serum were to be the most important items in the new restricted Free list. (iii) Some articles, taken from the old free list, were to be taxed 2½ p. c. ad valorem *e. g.* grain and pulse, tea chests and lead sheets for their manufacture, printing and lithographic material, machinery other than that required for cotton spinning and weaving, railway material and ships. A quantitative duty of 8 as. a ton on coal. coke and fuel was estimated to approximate also to 2½ p. c. ad valorem. In years of famine the tax on grain and pulse may be removed by executive order, while railway material for lines worked by the State was to be free from taxation as Government Stores, though Railway material for lines owned by the State but leased to companies for working was to be taxed 2½ p. c. (iv.) The other articles on the old free list were to be brought under the general tariff of 7½ p. c. as there was no justification for their being duty free. These modi-

* In para 54 of the Financial Statement 1915-16 "I said that the Government would not hesitate to resort to increased taxation to meet a dificiency in revenue which promised to be of a more or less abiding character. That contingency has now to be faced. The war continues, and we cannot go on, year after year, with uncovered deficits. We consider it essential in the present uncertain out-look to increase our and revenue resource in order to make good the anticipated Imperial deficit of the coming year, and also to supply a substantial surplus." Para 32, Financial Statement 1916-17.

fications were estimated to yield £ .160 million. (v.) The duty on iron and steel was to be raised from 1 p. c. to 2½ p. c. and that on other metals from 5 p. c. to 7½ p. c. giving an additional yield of £.08 million. (vi) The duty on arms and ammunition was doubled, approximating 20 % ad valorem, and yielding £ .020 million. (vii). The duty on ale, beer, porter and cider was increased from 3 as a gallon to 4½ as. with a corresponding increase in the Excise. The rate on potable spirit was raised from Rs. 9-6 a gallon to Rs. 11-4 per gallon and the preferential rates on spirit contained in drugs and medicines was withdrawn. The duty on champagne and sparkling wines was raised from Rs. 3-12 to Rs. 4 -6 per gallon, and that on still wines from Rs. 1-8 to 1-12. Including £ .020 million from Excise increase the total additional yield from these changes in the duties on wines, liquors and spirits was estimated to yield £.130 million. (viii) On tobacco, the duty was left untouched on the unmanufactured article; cigars and cigarettes were to be taxed 50 p. c. ad valorem in place of the existing specific duties. Manufactured tobacco of other description was to be taxed Rs. 1-8 in place of Rs. 1-2 per lb. The total additional yield from these changes was estimated at £.030 million. Petroleum cotton manufactures and rice were to be left unchanged. Silver Ware was to be taxed 15 p. c. ad valorem. The exports of Tea (ix) were to be taxed Re. 1½ per 100 lbs. and the change was estimated to yield £.300 million. The export of Raw, Jute was to be taxed Rs. 2-4 per bale of 400 lbs. equivalent to 5 p. c. at the then prevailing prices cuttings and rejections being charged 10 as per bale. Manufactured Jute exports were to be taxed Rs. 10 per ton in the case of sacking, and Rs. 16 per ton in the case of hessians. The yield was estimated at £·580 million. In addition, the tariff changes affecting the land trade were expected to yield £ .030 million * (B) The duty on Salt was to be raised from Re. 1 per maund of 82 lbs. to Re. 1-4 per maund, estimated to yield £ .600 million. (C) In the Income Tax changes all existing exemptions were left unaltered, as also the rates affecting Incomes upto Rs. 5,000 a year. Incomes from Salaries and Pensions and "Other Sources" exceeding Rs. 5,000 and upto Rs. 9,999 will pay 6 pies in the rupee; those between Rs. 10,000 and Rs. 24,999 a year will pay 9 pies in the rupee and those of 25,000 and more to pay one anna in the rupee. Profits of companies were to be taxed 1 anna in the rupee, subject to expemptions to individual share-holders whose in comes may be low enough to entitle them to such exemptions and to companies whose profits were below Rs. 1,000 a year. Interest on securities was to follow the same rate. These changes were expected to yield £ .900 million additional revenue.

In criticising these changes it may be observed in the first place that there can be no doubt as to the need for these changes. In view of the grave necessity, the points of regret, rather, is that the Government of India waited one whole year before making these charges, and even then confined their changes to getting an amount equal to meet the permanent addition to expenditure, without attempting

* For a fuller view of the customs Tariff in force see the schedule given in the Section on customs.

to meet any portion of the war expenditure from current revenues. The only excuse for the Government of India might be that they were misled by the Home Government as to the duration of the War and the seriousness of its demands; but that excuse cannot apply when the Government woke to the real character of the emergency and yet made provision for it on the most conservative lines. Turning from this general criticism to more specific charges, the criticism seems to be irresistible that Government held the scales unevenly between the payers of direct taxes and those of indirect taxes. While their proposals aimed at getting £2.7 million from indirect Taxes, only £ .9 million was to be raised from Direct Taxes. Before the War the respective burdens of Direct and Indirect Tax-payers were already very unequal to the prejudice of the latter; the proposed changes made the burdens still more unequal. Even if we deduct £580,000 of Jute revenue, £300,000 of Tea revenue and £30,000 of Tobacco revenues as not really borne by the poor Indian consumer, the disparity of burdens still remains, particularly if we remember that the ability, as measured by wealth or income, of the indirect tax-payers would be most prejudicially affected by a rise in prices, while the ability of the classes paying Income Tax was, if anything, rather improved. Objection may, therefore, be taken against these changes, especially the increase in Salt Duty; and the point was driven home by the further defect of these changes in that they were professedly made to yield a surplus. It is obviously unjust to tax the poorest class of the community most heavily for the object of getting a surplus. In the matter of Income Tax we have already noted our objections to the present system, with special reference to the exemption of Agricultural Incomes and the relatively low rates on higher Incomes. We may note, in passing, the exemption granted to those engaged in the Tea Industry, which, though in a highly prosperous condition, still enjoys this antiquated unjustifiable exemption, on the somewhat doubtful plea of its being an agricultural industry if the paradox be permitted.

There were some critics of the Budget of 1915-16 who at the time professed to see in these changes a fundamental change of policy. There is and there was intended—no such change. **The Indian Tariff system was and still remains one for Revenue purposes only.** The Government may have attempted to make some alleviation of the most outstanding sores, but they did not succeed; and therefore the fiscal policy remained as before without a bias in favour either of Protection or with a view to regulate the trade balance as was the case with the English Budget of September 1915.

A further point of criticism against these proposals—which at the time they were made was not quite obvious, is that the estimates of revenue were unjustifiably low. The caution in estimates is a legacy of the days when the extraordinary fluctuations in Exchange causing loss to India were a source of unending nightmare to the Finance Minister. Such excessive caution has no justification in modern Indian finance, and is apt to make the control on the spending departments

very slack. As is to be expectd from such a state of things the revenues were about 15 % in excess of the estimates, the greater portion being, of course, contributed by the payers of indirect-taxation. In the next Budget, 1917-18, the prosperous state of the revenues had induced the Government to offer, what in the conditions of India must be regarded as a lavish grant, by way of a War contribution of £100 millions. There was no earthly chance of raising this sum by revenue changes. Recourse to borrowing was inevitable, with the inevitable consequence of adding a permanent unjustifiable burden by way of Interest on the revenues. In combination with the increase in military expenditure, this extra charge would mean an addition to the taxation. With the existing basis of Revenue and expenditure, the Finance Minister estimated a surplus of about £2.75 million. With the extra charges just referred to, the surplus was converted into a deficit of £3 million at least, probably much more. Additional taxation was therefore, determined upon. The Finance Minister wisely left untouched the Salt Duty on account of the prevailing high prices. " A moment when prices are abnormally high, " he observed, "is not the time for adding to the tax as well " (para 59). After coquetting with the proposals for a cess on land * and for a tax on Excess Profits † he at last decided to make good his anticipated deficit by means of (A) Super Tax £1.350 million; (B) doubling the Jute duties. £.500 million; (C) Cotton Duties £1.00 million and (D) a sur tax on Railways estimated to yield £ .500 million, in all £3.350 million.

(A) The Super-Tax in addition to the Income Tax was to commence on Incomes of Rs. 50,000 and over in a graduated scale as below:—

(1)	For every rupee of the first 50,000 of the excess i.e. between Rs. 50,000 and 1 lakh.	1 *anna*
(2)	For every rupee of the next 50,000 excess	1½ „
(3)	„ „ „ „ „ „	2 „
(4)	„ „ „ „ „ „	2½ „
(5)	„ „ „ „ „ „ Remainder .. i.e. on everything over 2½ lakhs.	3 „ ‡

This was a welcome change in the most desirable direction, and making the richer classes bear something like their fair share of the burdens, though, even so, the figure remained much below the similar taxes in the United Kingdom or the United States. In the absence of reliable statistics to make an estimate, a guess was hazarded putting the yield at £1·350 million. §

* " Though we do not in any way admit that our Land Revenue assessments are other than most moderate, we prefer, so long as this is possible, to have the enhancement or imposition of special cases as sphere of taxation suitable for local boards, in order to assist these in developing such beneficint expenditure as that connected with education, sanitation, medical relief and local communications. It must be understood, however, that while we refrain on the present occasion from imposing additional Government taxation on agricultural incomes, we can give no pledge that we shall refrain from doing so hereafter should future necessities oblige us to take that course" Financial Statement 1917-18 para 60. Agricultura Incomes are still free from all taxation other than Land Revenue.

† This proposal for excess Profits Tax was dropped on the ground that there was no efficient machinery for assessment, as well as because by its nature it is a temporary expedient, while Indian finance was really in search of a permanent support. It was, however, introduced in the first Peace Budget 1919-20, but dropped this year. There can be no question of the justice of such a tax, whatever its practical inconveniences may be. It is, however, only a War measure, not a permanent item of revenue.

‡ This arrangement served to avoid an anomaly which is involved in our Income Tax legislation. Since all incomes under Rs. 10,000 pay 6 pies in the rupee, and those over 10,000, pay 9 pics it follows that the amount left after paying the tax on an Income of Rs. 9,950 is Rs. 9,639-1 while that left after paying the tax on Rs. 10,050 is Rs. 9,578-14-6 or actually less than the lower Income. Under the above arrangement such an anomaly cannot take place in the case of Super Tax.

§ The receipts from the Super Tax were wholly reserved for the Imperial Government, though the Income Tax proceeds are divided between the Imperial and the Provincial Government.

(B) The doubling of the rates of duty on the various Jute exports would have yielded much more than ½ million but for the difficulties of freight and exchange, as well as the recent restriction of export to the United Kingdom.

(C) After 20 years of injustice the cotton goods were allowed to be brought under the general tariff of 7½ p. c. ad valorem in place of the old 3½ p. c. Duty coupled with a counter vailing Excise. The latter, yielding £ .320 million, could not be abandoned, but the former meant an addition of £ 1 million to the revenue, without, however, altering the fundamentals of our customs tariff.

(D) A surcharge on Railway traffic at 1 pie per maund of coal, coke and fire-wood and 2 pies per maund of other articles, was estimated to yield £ .5 million.

The Budget for 1917-18 was, speaking generally, free from any ground of serious criticism. The Government had, of their own accord* promised a magnificent War contribution, in addition to the services already rendered by India, without consulting the people's representatives. The latter were, therefore, out-manoeuvred, and were offered the disagreeable alternatives of seeming to be miserly in the hour of the Empire's greatest need, or accepting a disproportionately large burden without a word of protest. The former alternative, even if there was in the Council any one bold enough to adopt it, was ineffectuals as, under the rules, the council has no power to vote the Budget. Any opposition would, therefore, be unavailing, however well it may have been founded. The only note of dissent, therefore, was sounded on the ground that non-official Indian members were deprived of the opportunity of making a voluntary, graceful offering by this step of the Govrnment which made the entire issue a foregone conclusion. On the other hand the proposal to tax cotton manufactures, at the general rate was necessarily appreciated though there were moments of intense, exquisite anxiety when the British Parliament seemed likely to veto this step under the influence of the Lancashire Vote. There was a *quid pro quo* of some sort, though of course, not all that could be desired; and the War contribution was, therefore accepted in silence if not with approval. The only point which aroused criticism was the proposal to tax the profits of the Joint Stock Companies under the Super Tax, with the exception of the amounts legitimately required for depreciation, but including Reserves. Indian industry is notoriously suffering from a scarcity of loanable capital, and to remedy this deficiency many enterprises in India have been started with a small subscribed capital, the additional money required being raised in the form of capital debt. Out of the profits in good years the capital debt may be discharged, and further additions improvements undertaken from the

* The following telegram was addressed early in January 1917 to the Secretary of State by the Viceroy 'I feel, and I speak throughout with the cordial and unanimous assent of my colleagues, that the time has come for India to place her credit and her taxable capacity at the disposal of His Majesty's Government, to be utilised to the farthest extent which her, limited resources, and a just appreciation of the circumstances of her people render practicable, and in such time and manner as H. M.'s Government may deem expedient. We are prepared to borrow in India, as a War Loan for H. M.'s Government, the largest sum which can be raised, and to offer for this purpose terms no less liberal than those which have been granted in England." The telegram went on to indicate that India was prepared to contribute £100 million and the offer was thankfully accepted See. para. 49, of the Financial Statement of 1917-18.

same source. Without this expedient the large scale industries of modern times would not have made the progress that they have in the last twenty years. Besides, in India the investor expects, and the managing Agents of large enterprises are often compelled to, divide profits upto the hilt; hence a good reserve can be built up only when the majority of the shares are in very strong hands. Now if a Super Tax was levied on the Reserves it would not be unnatural to apprehend that the tendency to divide profits upto to the hilt will be encouraged, and the fluctuations characteristic of Indian industrial enterprise will be still more encouraged. In view of these objections the Bill was amended and 10 p. c. of the profits, in addition to the provision for depreciation, were allowed to be set aside free of Super Tax. This, as far as it goes, was a welcome change, but conservative bankers and industrialists still feel that it does not meet the special needs of Indian industry. The very considerable rise in prices coupled with a practical impossibility of effective competition had caused a boom in Indian industry, which, it was rightly desired, should be made to bear its fair share of the war burdens. In England and the United States they were taxing the Excess War profits upto 80 %; but in India, owing to the absence of the requisite machinery for ascertaining the normal and the Excess Profits, the Finance Minister—himself no bad specimen of sound, conservative, middle class financier—did not feel it possible to introduce the Excess Profits Tax. There was, in the absence of the alternative state or co-operative enterprise, no means of effectively controlling prices of articles produced by private enterprise. Consequently the Super Tax was the only—and not the heaviest—alternative open to the Finance Minister, if he was not to render the distribution of War burdens even more uneven than they are to-day.

These changes completed the Tax additions of the War period. The practice of too cautious and estimate was again evidenced in 1917-18 by the Revenues exceeding the estimate by 12-5 p. c. from £ 98.8 million to £110.4 million; the expenditure also increased but not in the same proportion, from £98.8 to £102.2 million. With these sums in hand the Finance Minister did not feel it necessary to add to the burdens of taxation in 1918-19 all the additional needs being met out of further borrowing. In order, however, that the borrowing programme may be a success, the Government felt the need of restricting by law industrial floatation, and so a temporary War measure—the Indian Companies Restriction Act of 1918 was introduced in the Council. It required the Registrar of Joint Stock Companies not to register any new company, and forbade existing companies from increasing their share capital, or issuing debentures, or calling up unpaid capital, unless the Company had a license in this behalf by the Governor-General in Council. This was, of course, felt to be an excessive demand on the score of War needs; but it was an inevitable logical consequence of the policy of borrowing in India which the Government had so unwisely adopted. In working this law, the Finance Minister explained, two general questions would

be asked of every company demanding a license: viz., (*a*) Is the proposed Company likely to attract money which would otherwise go into loans and Treasury Bills; (*b*) If it was likely to attract money which would go to Government was the enterprise such as would help to speed up the production of war material or likely to result in the production of other commodities which would save tonnage and Imports into India. If it was, the License would be granted; if it could not help in War work and might yet help to take away money which would otherwise go to Government loans, the License would be refused. The decision on these questions was to be left to a committee of officials and businessmen. Such a procedure could not but give rise to complaints about favouritism by the Committee in the issue of licenses; and the utterly unacceptable character of the Bill saved it from annihilation from the obvious means of evading its provisions* and, much more, from its temporary character, coming speedily to a close on the termination of the War.

Another interesting proposal in the Budget of 1918-19 was in reference to the consolidation of the Income Tax Act, incidentally by bringing the agricultural Incomes under the operation of the Law. The offending clause was, however, excised by free voting being permitted to the official members. The new act affects " all income from whatever source it is derived, if it accrues or arises or is received in British India." Exception, however, is made in the case of (1) Income derived from property held under trust for religions or charitable purposes; (2) Income of a religious or charitable institution; (3) Income of local authorities; (4) Interest on securities held in provident Funds or (5) amount received in commutation of pension; (6) special allowance to meet expenses incurred in performance of a duty or office; (7) Legacies (8) casual and non-recurrent receipts; (9) Perquisites which are not money and cannot be valued in money are all exempted from taxation. Agricultural incomes are also exempted. The categories subject to the tax are: salaries and Pensions; Interest on securities; Income derived from House Property and from Business Professional earnings and incomes derived from other Sources. The exemptions allowed under the new Act, we may remark in passing, are open to objection in the case of Agricultural Incomes and those under (1), (2), (6), (7) (8). They help to sacrifice a considerable portion of public revenues, without any real

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* The present writer of his own experience can mention at least one case in which the provisions of the Act were palpably evaded. It was a proposal to acquire certain lands in Burma supposed to have considerable possibilities for mineral oil and other mining opportunities. The capital considered necessary was fixed at 60 lakhs. The licensing Committee were assured by the promoters that the success of the enterprise was bound to be of national benefit and immense help in War work, by supplying the much needed fuel. The committee, though consisting of friends of the promoters, could not quite swallow that such an enterprise would require so much capital. It was, then, assured that the proposed capital was essential in view of the high prices of machinery &c. and that if the license were granted, and the company succeeded in obtaining subscriptions, they would subscribe a specified proportion to the War Loan. This was enough. The Government knew they could not make quite so good an appeal to the rich investor as the Industrial proposition could, and as the promoters of the proposition were willing to make contributions to the War Loan more was to be gained by according the License than by refusing it. The license was granted, but unfortunately the differences among the promoters on the division of spoils allowed the proposal to fall through.

It may be added that the real hardship of this measure was not so much in the case of industrial enterprise—for which it was during the war extremely difficult to obtain plant and macinery from a'10 as in the case of Banking or Insurance enterprise. No such proposals were made during the perio restriction.

corresponding benefit to the community. We have already laboured the point about agricultural Incomes and those of religious bodies elsewhere. The wealth of the last mentioned class is unknown, and probably very large. It lies absolutely idle—or used only to pamper a most mischievous section of the community in extravagant idleness to the grave prejudice of the health, morals and intellect of the community. There is no excuse for their exemption except the timidity of a Government which does not feel itself national. Under (6) the allowances would include Travelling Allowance, which , despite the regulations of Public Service, is actually made a source of considerable income and ought to be taxed. So also legacies which in India are not subject to any other Tax. Under (8) the most considerable item of income would be prizes under lotteries. The Government of India in their prudishness consider lotteries illegal, and so ignore their existence altogether. It would be a more effective source of discouraging them, if they were subjected to a heavy License fee and the prizes were made liable to Super-Tax and Income Tax at even heavier rates than those on ordinary incomes. It is an open secret that considerable sums are annually distributed in India by local or foreign lotteries (*e. g.* the Derby Sweep under the auspices of the Calcutta Turf Club) though of course in the absence of official statistics there cannot be any reliable estimate.* The Act lays down a scale of deductions for those shareholders or security holders who have been axed at the source in the first instance, but whose total income from all sources is not large enough to allow the one anna rate at which Profits of companies and Interest on securities are charged.† The mode of assessment is changed, and it is now compulsory on every company to send in an annual return, while private persons are required to submit a statement of their income to the tax collector. The collector may assess the tax on that statement, or make further inquiries Provision is made for appeal abainst the decision of the collector to the Commissioner who may alter, confirm or reject the collector's decision. A penal assessment of double the tax is levied on any one guilty of concealment of his income, while misstatements are made a criminal offence which may be prosecuted at the instance of the Collector Graduation remains as under the Acts of 1916 and 1917.

XCVI. THE HISTORY OF THE INDIAN WAR LOANS.

In the first two years of the War, as already observed, the extent and nature of the strain likely to be caused by the War being not properly understood. the Government of India decided to meet the deficits caused in their ordinary revenue and expenditure by (a) cutting down their programme of capital outlay on Productive Public works ; and, if that did not suffice, by (b) temporary

* A license duty on every lotery combined with a 25 to 50 % Income Tax on Prizes ought to yield from 1 to 2 crores.

† The rates of Refunds are :—

One anna in the rupee if Income below	Rs. 1,000 a year	
8 pies " " " " "	1,000 & 2000	a year
" " " " " "	2,000 & 5000	"
" " " " " " "	5,000 & 10,000	"
8 " " " " " " "	10,000 & 25,000	"

borrowing. As the War went on its strain proved to be greater than could be met by simply retrenching in ordinary expenditure; while borrowing in the usual loan market of the Government of India became increasingly difficult owing to heavy borrowing for war purposes in England itself. In the first War Budget 1915-16 the whole demand was met by temporary Loans being raised in England, and in India by a Loan from the Gold Standard Reserve. In India a Loan of £4 million was issued on 1st. December 1915 at 4 p. c. and on condition that it was to be repaid on or before the 30th November 1923 but not before 30th of November 1920 with three months' previous notice. In the next Budget was announced the 4 p. c. Conversion Loan to which reference has already been made. It was to be repaid on or before 1st. October 1936, but not before 1st. October 1931 with three months' previous notice. Being issued on October 1st. 1916 it offered an investment for not less than 15 and not more than twenty years. The Loan resalised about Rs. 6.73 crores including Rs. 32.49 lakhs raised through the Post Office. This last was an innovation to attract the small investor. It was estimated to yield at most Rs. 50 lakhs, but it yielded about ⅔ of the estimate. This was considered sufficient indication of the popularity of the Post office section to encourage the Finance Minister to make it a permanent feature of the Indian financial organisation. The main loan was intended in the first instance to be for £4 million or 6 crores of rupees, which, under certain circumstances, the Government were willing to increase to £8 million or 12 crores of rupees, in addition to the Post Office Loan Receipts. The Loan actually subscribed barely reached the expected limit of £4 million and so the Government felt their borrowing programme was not quite an unqualified success. Perhaps the chief factor accounting for the relative failure of the Loan was the limitation placed on the Conversion rights.

After the decision to contribute £100 million towards the War costs of the Empire had been taken in March 1917, the borrowing programme had to be very much expanded in spite of the relative failure of the previous year. An unlimited Loan, the yield of which the Finance Minister could not put over £10 million in the Budget* was issued in three sections (1) A long term Loan at 5 p. c. interest was issued at 95, to be redeemable on or after 31st March 1929 and in any case not later than 31st. March 1947. A Special Sinking Fund was to be created in respect of this Loan, and conversion rights were offered in respect of all existing long term obligations † But the long term investment

* See para 21 of the Financial Statement of 1918-19.

† "Taking these factors into consideration the conversion rates we have fixed as fair are that every Rs. 100 of the 4 p. c. conversion loan shall be accepted as equivalent to Rs. 92 of our new loan while the corresponding rates for the 3½ and 3 p. c. paper will be Rs. 76 and Rs. 65 respectively. I am speaking in each case of face values. Thus, to take a single example, a person who has obtained conversion rights entitling him to convert Rs 600. face value, of 3½ p. c. paper, will have that paper converted into our long term loan at Rs. 456 But it must be remembered of course that the Loan is only issued in denominations of Rs. 100, consequently while the holder can obtain Rs. 400 in any case, he can only obtain 500 by subscribing the cash equivalent of Rs. 44 (nominal) of the new loan, and for the sake of simplicity we shall fix the cash discount at one anna per rupee of nominal value..... This year we are adopting a simple uniform rule....that for every Rs. 100 face value of a new paper issued Rs. 150 face value of old paper may be converted whether it be 4 p. c. 3½ p. c, " para 79 80 of the Financial Statement, 1917-18 A sinking Fund of 1½ p. c. a year was specially established for the redemption of this loan. The conversion rights were necessarly narrow to obtain new funds,

required by this Loan would not suit the convenience of Banks and Financial Houses to whom easy and early redemption was much more important than the permanence of the investment. For their convenience (2) the short term Bonds with a currency of 3 t0 5 years at the option of the purchaser were introduced. The interest on these was to be at $5\frac{1}{2}$ p. c. free from Income Tax, but subject to Super Tax* The third section was intended to be a permanent measure to bring the government into touch with the small investor. There was to be no time limit in respect of contributions from this source. Post Offices throughout the country were to sell cash certificates of Rs. 10, 20, 50 and 100 at a price so fixed that the amount repayable at the end of five years *i. e.* the full face value of the certificate—should represent a return of about $5\frac{1}{4}$ p. c. compound interest, the Rs. 10 certificate being thus purchaseable at Rs. 7-8. That the holder may not be embarrassed by his investment in case of need for liquid funds, it was further provided that the Post Offices should repurchase these certificates at a valuation which would allow interest for the period during which the certificate had been held† The interest on these would be paid free of Income Tax. Tbe amount that could be held by any individual was limited to Rs. 10,000 The following table shows the total subscriptions under the various heads :—

—	5 p. c. War Loan 29-47. Rs.	$5\frac{1}{2}$ p. c. 3 yr. Bonds. Rs.	$5\frac{1}{2}$ % 5 yr. Bonds. Rs.	Total. Rs.
Main Section ..	10,80,85,400	16,77,82,500	10,49,90,800	38,08,58.700
‡Government Scheme ..	2,99,700	13,82,400	7,45,500	24,27,600
§British Tr. Bills	97,60,500	66,51,100	....	1,64,11,600
Total ..	11,81,45,600	17,58,16,000	10,57,36,300	39,96,97,900

In addition to these Rs. 3,21,99,550 were subscribed through the Post Office before August 29 and Rs. 7,10,93,935 by way of cash certificates before August 23. The aggregate total was Rs. 50,33,23,885 far in excess of the budgeted estimate of the Finance Minister. Nearly 30 crores out of 50 was for short term bonds chiefly taken by Banks and Joint Stock Companies. Among the various provinces Bombay led the way by a total subscription of Rs. 10,65,08,600 Bengal coming a near second with Rs. 10,46,54,100. If we add the subscriptions through the Post Office and Cash Certificates, Bombay's lead would be much more considerable, being Rs. 13,22,76,105 as against Bengal's Rs. 11,44,20,729.

*This provision was anomalous a result of too faithful an imitation of the English terms. It might have prevented very large subscriptions by single individuals or corporations for fear of the super-Tax.

† Specimen table to show increment in the value of Rs. 10 cash certificate at the end of each whole year:

	Rs.			
Purchase price	7	12	0	Due. after 5 years Rs. 10
Due at End of 1st. year	8	1	0	
Due at End of 2nd. year	8	7	0	
Due at End of 3rd. ,,	8	14	0	
Due at End of 4th ,,	9	6	0	

‡ The Government offered their servants certain facilities for subscribing to the Loan, which came to be known as the Government scheme. Presidency and other Banks also offered substantial concessions to their clients to take up the Loan, paying them as much as 95 p. c. of the amount required to by the Loan by way of advances for two years at 5 p. c. or similar low rates The Banks, however, applied the screw in case of depreciation, and demanded further cover against the advances.

The necessity to meet the promised contribution from Indian sources, combined with the military requirements of the Home Government to be financed by India, imperatively demanded the continuation of the borrowing programme in the Budget of 1918-19. Though the Budget estimate of the yield of the Loan was much exceeded in 1917 by the actual totals, the estimate of 1918 again adopted a modest figure on the ground, chiefly, that the effort of 1917, in proportion as it was magnificent, must have exhausted the loanable resources of India. £ 20 million or thirty crores was expected to be the utmost of limit of the yield in the second year. This loan of 1918 was in 2 sections, the 5½ p. c. Bonds of 3. 5, 7 and 10 years duration, and the Post Office section. The yield in the main section was divided as follows :—

	War Bonds 1921 Rs.	War Bonds 1923 Rs.	War Bonds 1925 Rs.	War Bonds 1928 Rs.	Total. Rs.
Main Section .	23,28,25,100	1,70,91,100	3,54,34,600	21,91,39,500	50,44,90,300
Govt. Scheme.	61,00,000	....	7,50,000	16,09,300	84,59,300
B. Tr. Bills	8,89,700	1,12,500	1,85,600	5,56,300	17,44,100
Total ..	23,98,14,800	1,72,03,600	3,63,70,200	22,13,05,700	51,46,93,700

This yield, it may be observed, is in addition to the amounts obtained by means of the cash certificates and through the Post Office section, which was expected to yield Rs. 5.5 crores, making a total of about Rs. 57 crores.*

The amounts received in subscription to the main War Loans in its various sections was, it must be mentioned, in addition to the still more short term loans in the form of Treasury Bills. The amount of these outstanding varied from week to week, but generally the accretion to the resources of Government through this source was seldom under Rs. 30 crores and often in excess 45 crores. To Banks and financial houses these first class short term loans were peculiarly acceptable and hence their large amounts taken up. For day to day financing of the demands upon the Government there cannot, perhaps, be a better expedient.

It may also be added at this stage that during the operations of the War-Loans the procedure for obtaining scrip was very much simplified. In place of the old system of tender and allotment, the Government can now issue scrip

* In commenting on the success of the War Loan the Controller of Currency observes: "The main section of the 1918 Loan has raised nearly 51½ crores, and the number of applications was no less than 103,282. The Post-Office section of the 1917-18 War Loan realised Rs 4½ crores, the number of applications being 82,000; and it is probable that even better results will be obtained through the Post-Office section this year. The full significance of these figures will be appreciated by consideration of the fact that, previous to the War., the largest rupee Loan raised in India in recent years was that of 1906 which amounted to Rs. 4½ crores, the number of tenderers being only 1172. It is, perhaps, not too much to hope that we have now in existence the germ of a large class of Rentiers, the investment of whose savings in the public loans should, in future years be of almost incalculable value in furthering the development of the country." Lord Meston, as finance minister in 1919-20 reiterated the same view as much for the industrial development of the country as for the steadying of our currency system consequent upon the growth of the habit of keeping wealth in the form of securities para 33 of the statement. Lord Meston gives the figures of applications for the Loan excluding Purchasers of cash certificates at 155,103 in 1917-18 and 227,706 in 1918.

over the counter in most places immediately on payment of the amount, while very short delay would suffice to get it even in the most backward places.

XCVII. LOANS AND TAXES.

We have already discussed elsewhere the entire borrowing programme of the Government during the War from the stand-point of its effects upon Indian industry and commerce. We shall, therefore, confine ourselves here only to considerations of general financial principles. But one point of detail must not be passed over in silence. While we must welcome the new expedients which have roused a much needed spirit of investment in India, we cannot but point out that in many cases the new creditors of the Government are induced to subscribe more by force than by an intelligent perception of the advantages. As the Finance Minister put it in 1919 if the canvasser's zeal outruns his discretion, the swelling of the nominal figures subscribed would afford no substantial aid to the State, and may quite possibly prove a source of grave danger, if considerable amounts of such short term bonds as the cash certificates get into the hands of very weak holders. * Besides, the whole of the War period borrowing was exclusively for wasteful, though unavoidable, purpose; and there is no cause for jubilation at its success, except in so far as it affords a hope of success for similar borrowing in the future for more productive purposes. † On grounds of sound financial principles we cannot but deplore the preference accorded to borrowing over taxation for meeting this heavy, unproductive charge. Assuming, for the sake of argument, the necessity as well as the justice of a contribution of £100 million from the resources of India for England's War in Europe, though England has never, except in the case of the 2nd. Afghan War, contributed anything to the expenses of the Wars undertaken by India in the Imperial interests and often against her own; and despite the fact that the relative wealth of the two countries is so enormously different, making a contribution which would be crushing to India almost a flea-bite to England, it may yet be questioned whether financing by borrowing was really more beneficial than raising taxation. It is, of course, true that by no conceivable means in the present circumstances of India the whole of the £100 million could be raised in a single year from taxation in addition to the ordinary revenues,-short, indeed, of a forced levy on wealth, which a Government, conscious of its want of national spirit, and therefore of the absence of the fullest sympathy by the people, could not attempt. But there is nothing to prove that the amount they actually obtained by subscriptions to the War Loans could not have been obtained by a combination of a 25 p. c. Income Tax on Incomes over Rs. 50,000 a year, coupled with a graduated Super Tax-rising to 50 p. c. on Incomes exceeding Rs. 2,50,000 a year; manipulation of the

* Weak or strong, the small investor must realise his investment in period of stress such as the famine year of 1918-19. The conversions in that year, therefore do not give any indication of the possibility of extending the system of borrowing from small capitalists.

†It may be doubted if the efforts to obtain subscriptions for industrial purposes would be quite so severe as in the case of War subscriptions. In the former case subordinate officers would be lacking the spur of commendation from superior officers that they had for their war exertions; and in the absence to official pressure it is doubtful if Indian investors would be forthcoming in the proportion and to the exent they have done during the War.

customs schedule in the manner suggested in a previous section: raising of Excise Duties to double the existing rates, and the introduction of a new Excise on home grown tobacco preparatory to the commencement of a monopoly in that article; and the abolition of all unfair exemptions in the case of Income Tax. The rejected tax on Land might in that case have appeared less objectionable. The total of these would have at the lowest estimate yielded Rs. 30 crores additional, and paid off the whole contribution in 5 years, instead of charging the country with a useless burden by way of interest of Rs. 10 crores a year in round figures for 30 years at least. A great officer of the Government,* in starting the campaign for the 2nd. War Loan, was flattered to have made a great hit by discovering the obvious truth that if the Loan were subscribed in India the interest also would remain in the country, It had been the burden of Indian critics' song for thirty years and more against the Government's policy of borrowing abroad. But what neither the Government nor its critics quite realised was the perpetuation of inequalities of an injurious kind in the distribution of the national wealth by the adoption of the system of borrowing in preference to boldly facing the situation and raising taxation. There could be no objection, perhaps, to either borrowing or increasing taxation if all citizens were of equal ability, and had equal incomes. But in view of the immense existing inequalities, in the face of indefensible exemptions from taxation, the preference to borrowing must necessarily produce the most miscellaneous results. The poor man will have to bear additional burdens to pay the rich man his interest and capital, which, being used up in smoke and powder, could have done no material good to the country and its poor inhabitants. † Moreover during such a long drawn out struggle the poor suffer much more than the rich, in that the unavoidable demands of War end in diverting capital from industry, and, therefore, leave the worker with much less efficient tools to make an effort for a much larger production. Apparently the worker may obtain the benefit of the War in the shape of increased wages. But even if this increase in wages is real and is not set off by harder and more continuous work for longer hours, as well as by a much greater increase in prices, the War time prosperity of the working classes is essentially short lived, while the burden of taxation left as a legacy of the War is bound to be permanent. " The absorptions and destruction in War of large masses of resources, which would normally have been used in industry, necessarily means that the labour of future years has fewer tools and machines with which to co-operate, is, therefore, less productive and earns a lower rate of remuneration " (Pigou) Besides the rich in subscribing to the War Loans will have recourse to their Banks, and the grant of easy facilities by them cannot but end in an undue inflation of prices. We must therefore, condemn the policy of the Indian Government in relying upon borrowing for

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* Lord Ronaldshay in April 1918.

† As Prof. Pigou has rightly pointed out (Economy and Finance of the War) when the inflated War-prices should return to their pre-War or normal level, the burden of interest would prove in reality much greater. For when the rich capitalist tool up the War Loan, the inrerest he was promised would have pur chased in terms of values much less, than the same amount would purchase when the prices should have fallen. The arrangement is on the whole-entirely for the benefit of the rich. We have in this section followed the argument of Prof. Pigou, op. cit. in his chapter on Taxes V. loans.

their War demands *in preference to raising* taxation, and thus leaving a permanent burden upon the people very unfairly and unevenly distributed. Increased taxation would not only have prevented the accumulation of a permanent and unproductive burden; it would of necessity have left the burdens on those best able to bear them well, because while the limit of taxing the poorer section of the community is soon reached, the limit of taxing the rich is much more elastic than is believed under a tax system like ours, whose outstanding characteristic is excessive timidity and indefensible caution * When the War was over the increased taxation may have been remitted, or the surplus receipts might be used to finance projects of material improvement for the permanent benefit to all classes of the country. The Government based their appeal for War Loans subscriptions as much on economic as on patriotic grounds; but they overlooked the obvious retort that patriotism at 5 p. c. or 5½ p. c. is by no means such a hard virtue to practice as the frantic invocations of patriotic virtue in government notifications and their inspired press would lead one to believe. †

XCVIII. INDIA'S TOTAL WAR CONTRIBUTION.

We have now reviewed the outstanding features of the war Finance in India. It must be observed here that the total contribution of India to the War—such at least as is capable of a money valuation is—not confined to the Taxes and loans above described. Though not bound to take any share in the War beyond her frontiers; though England-with the single exception of Gladstone's contribution of £5 million towards the expenses of the Afghan War in 1878-80, has never borne any share of the frequent military expeditious forced upon the Government of India by consideration of Imperial interest; on the outbreak of the War non-official India hastened to offer the aid of the Indian army in the European struggle agreeing to bear the normal cost of the troops dispatched Compared with the pre-War scale of expenditure, the net military expenditure borne by India had increased between 1914-15 and 31st. March 1918 by £16,500,000. To this we must add £ 21 million in round figures resolved to be contributed in September 1918, and another £ 3,500,000 as increased expenditure in 1918 April to September. This gives a total of £41 million, meaning to India 62.5 crores of rupees in military expenditure alone. We raised and sent to the various theatres of the War a million and quarter of troops as against our normal peace army of about 270,000 men of all ranks. The

* Before the War a demand of Rs. 5 crores for the purpose of primary education being made compulsory and free was considered impossible to meet from the limited resources of India, while during the War for entirely wasteful purposes as much as Rs. 40 crores additional revenue could be found in a single year as compared to the pre-War standard. The possibilities of a country cannot be known if you do not try them. It is to be hoped that one good result of the War will be that in future no such fatuous arguments about the restricted means will be used to defeat projects of material benefits to the country, which must cost.

† The above criticism, I am afraid, would not commend itself to Indian publicists, if one is to judge from the general tone of debates in the Imperial council, and the stray works of Indian economic writers. See for example Prof. Kale's India's War Finance. Perhaps the leaders of Indian Public opinion were afraid, in such a political crisis, to give their real views on War Financing in India. More probably, most of them, who can understand such problems, have been reared in the old school of financiers, and, therefore, cannot see much, in the methods adopted. to criticise. Sir William Mayer, the Fiannce Minister during the entire War period, received a pean of praise on his retirement, as much because he was an excellent, well meaning, cautious representative of orthodox finance, as because he really tried, within his limits, to keep in view India's interests against every sort of pressure which must have been brought to bear upon him. Next after Baring Barbour and Covin in the eighties, Meyer seems to have been the most sympathetic Finance Minister of India during the last 50 years.

service was all the greater as India dispatched her veteran soldiers and received in exchange much smaller numbers of inexperienced territorials to guard her exposed frontiers. The political charges were increased owing to the War, by £ 1,300,000 upto the end of 1917-18 and possibly by £1,500,000 by the end of the War. For the same period the War increase in Civil Department expenditure was £250,000, The Interest charges on the War debt may be taken for the war period only at £ 13 million or Rs. 20 crores. This, of course, leaves out of account the permanent character of the burden. Miscellaneous expenditure may be taken at Re. 1 crore or a total of 87½ crores.

This is only the money side of the account. It does not, and cannot, show the fact that thanks to the war India has got an additional annual burden by way of interest alone of Rs. 10 crores, not to speak of the permanent increase in military expenditure that will result in consequence of the war and non-effective charges. We have financed heavy outlays on the part of the British Government aggregating over £200 million in 5 years to the grave prejudice of our industry and commerce, our currency and exchange. We have invested largely in British securities-over and above making the gift of 100 millions from our various Reserves for the maintenance of the Currency system, and to that extent contributed to the success of the various British war loans. These come to over £130 million and have depreciated so much as to cause India a net loss of about half the amount if not more. * We have starved our own industries, restricted our trade, manipulated our commercial finance to help prosecute the War to a successful end. We have cut down our usual programmes of capital expenditure for material development, to dangerously low proportions; reduced the allotments of the Provinces for education and sanitation; stopped all schemes of social amelioration that might at all interfere with the financial needs of the War. †

As though these contributions were not enough, it was resolved in the last month of the War to contribute another £45 million to the expenses of the War. The way had been paved for this increase by a conference called by the Viceroy in April, where it was decided to raise 500,000 more troops in India commencing with June 1st. On the 9th of September, Sir William Meyer, the retiring Finance Minister, brought in a resolution saying: "That this council recognises that the prolongation of the War justifies India's taking a larger share than she does at present in respect of the cost of the military forces raised, or to be raised, in this country" This procedure of a resolution was an adroit manoeuvre on the part of the Government to force the hands of the non-official members in acccepting or rejecting the suggestion, since the Government declared that they had no intention to use their official majority to carry through the

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* We of course, include the depreciation due both to the successive rise in interest and also to the rise in exchange.

† In return we have obtained a recognition of a limited sort in the world council, and a slightly more important place in the council of the Empire; a scheme of constitutional Reforms, which have not yet been put into operation, but which are expected to lead to complete responsible Government in course of time; and an equality of treatment in the tariff of import duties-the most material of all.

resolution. Having pledged themselves to further exertion at the April conference, the non-official members had no alternative but to adopt the Resolution; and the Government could not but feel gratified that this was a popular contribution as against the previous contribution of £100 million which was made under an executive decision. The idea was to take over the entire cost of 200,000 troops for the period of the War; and assuming that the War would be over by March 1920, the Finance Minister calculated the additional cost at £12.7 million for 1918-19, £14.7 million for 1919-20 and for 1920-21 a year of demobilisation £7.7 making a total of £ 35.1 million. To these he added additional pensions and non-effective charges for £10 million making a total of £45 million. As the expected surplus was considerable for 1918-19 no additional taxation was proposed, and the Resolution was adopted subject to the addition of the following words to the original: "and recommends that such larger share be to the extent and under the conditions and safeguards indicated in the speech of the Hon. the Finance Minister in moving this Resolution." The safeguards here referred to are that India has no War expenditure to meet on her own account, nor any extraordinary expenditure on account of famine.

CHAPTER II.

XCIX. THE FIRST PEACE BUDGET, (1919-20)

The Resolution for an additional contribution was passed on the 9th of September. On the 11th of November the Armistice was signed, and the War came to an end for all practical purposes. Before the first Peace Budget was presented in March 1919 there were, however, additional demands for unforeseen expenditure in connection with the virulent outbreak of Influenza and the intensification of Famine—the most severe since 1900. The sudden cessation of hostilities led to a considerable dislocation in the Import and Export trade, affecting the Government Revenues under customs as well as the direct taxation for "Peace brought catastrophe to those who had been gambling wildly on the continuation of War." * The close of hostilities, however, had helped to reduce the additional contribution from the anticipated £14.7 million to £12.7 million for 1918-19 and £8.7 million for 1919-20 thereafter only non-effective charges being considered. Against this there was a falling of in exchange profits owing to the stoppage of the Council sales after the armistice. At one time this source was estimated to provide for the whole of the additional £14.7 million contribution for 1918-19; but in the end the Exchange Profits came to only £4.5 million. Famine was to cost an extra £1 million in the shape of the falling off of the land Revenue receipts, in addition to £300,000 payable to famine-stricken provinces for making up the deficit in their share of the guaranteed minimum of Land Revenue. The cessation of the War must, also, see the recommencement of the arrested progress in projects of the moral and material development of the country, typified in the increased grants for education and sanitation, greater exertions for industrial development, larger outlay for Railways and Irrigation works. Provision must also be made for the storm that was gathering on the North-Western Frontier, and also for the increased pay and allowance to the British Troops and officers in India. The Revenues had been no doubt increasing, and, after the passing away of the dislocation caused by the sudden cessation of hostilities the growth would no doubt continue.

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*The above figures do not include £ 2 million subscribed for charitable funds in connection with the War,

The following table shows the Revenue and Expenditure as Budgetted for 1919-20.

Revenue.	£.	Expenditure.	£.
Land Revenue	22,653,100	Direct Demands ..	11,293,300
Opium	3,056,200	Interest	7,763,500
Salt	3,914,300	Posts & Telegraphs ..	4,580,200
Stamps	6,097,100	Mint	284,200
Excise	12,133,300	Civ. Department ..	24,336,400
Customs	13,352,400	Misc. Civ. Ch.	6,115,700
Income Tax	13,521,500	Fam. Relf.	1,502,400
Other heads	4,568,900	Railways..	14,468,900
Interest	3,637,400	Irrigation	4,075,400
Posts & Telegraphs ..	5,716,800	Other P. W.	6,761,400
Mint	1,303,200	Mil. Services	42,782,300
Civil Department ..	1,957,500		
Miscellaneous	2,507,400	Total ..	123,964,000
Railways net.	21,372,900		
Irrigation	5,498,600	Surplus	868,100
Other P. W.	312,900		
Mil. Receipts.	1,587,300	Total ..	124,832,100
Total ..	123,190,800		
Provincial Balances ..	1,641,300		
	124,832,100		124,832,100

On the side of Expenditure, apart from the Army, the most notable increase was in connection with the capital Expenditure on Railways. The subjoined table shows the amount allotted for this purpose during the War, and the amount granted in the first peace Budget.

——	1915-16	1916-17	1917-18	1918-19	1919-20
	£.	£.	£.	£.	£.
Open lines and Rolling Stock	3,864,200	1,236,500	1,595,200	4,009,500	17,191,900
Lines under Construction	627,100	245,700	129,200	375,300	508,100
Stated previously Started now.. ..	..	495,500	804,400	18,300	....
Total ..	4,491,300	1,978,700	2,529,300	4,403,100	17,700,000

In 1913-14, the largest pre-War grant, the figures were: £ 10,303,100 for open lines, £1,871,500 for lines under construction started in previous years, and £131,700 on lines started in 1913-14, the total being £12,306,300. The 1919-20 total was nearly 45 % more than the largest pre-War grant. The large peace grant was necessary to make good the War wastage and would be unobjectionable if it does not become a standard.

On the Revenue side the most note-worthy changes were: (1) An increase of the limit of Incomes exempted from taxation from Rs. 1,000 a year to Rs. 2,000 a year. This was estimated to cost the Treasury Rs. 75 lakhs; but it relieved 237,000 petty assessees out of a total of 381,000 people paying the tax or about 64 p. c. of the total (2) An Excess Profits Tax of 50 p. c. on Profits earned during the War. The gross yield of this duty was estimated at £ 7.5 million. But it was suggested that Super-tax and Excess Profits Tax should not both be assessed on the same business, while a rebate should be granted on account of the Income Tax on the amount of profits paid away as Excess Profits Duty. The loss due to these deduction (£1 million + £·450 million) left the net estimated yield at £ 6 million. The practical working out of the Excess Profits Tax was unavoidably subjected to much criticism, as there was no efficient and reliable machinery to prescribe the norm and determine the excess. Besides, the cessation of hostilities had brought heavy losses to many, who might yet be subjected to the tax. The Government met these objections by a number of concessions, such as allowing an extension of the year to coincide with the official year for the purpose of simplicity in assessment, or fixing an average of the preceding years as the basis for determining the normal Profits. A stronger objection was raised on the ground that the Tax, by its nature, was a War Tax, had no justification in practice after the close of the War. But the need was imperative, and it is difficult to challenge the justice of a proposal which tried to place the burdens on the shoulders best able to bear them. The War was over, but, with the slight interruption caused by the unexpected end of the struggle, not the profits due to the War. Objection may of course be taken to points of detail, such as exempting from the operation of the Tax great corporations—like the P. & O. and the B. I. S. N. Companies—which are working in India, and earning a considerable share of their profits in this country—but are registered and domiciled in England. The fact of a double burden of taxation under the confused medley of Income Tax Legislation is not sufficient reason for excluding these very powerful and wealthy companies from Indian taxation at least on their Indian profits. But apart from this there could not be any serious objectin to the principle of the Tax.

In concluding his Budget statement the Finance Minister remarked; "All the lessons of history teach us that, after the feverish activity of War-Time in a country which has been assisting in, though not the scene of, hostilities, reaction inevitably ensues. The prosperity which is based upon the production of the perishable munitions of War stands on foundations of sand, and must

soon collapse. The vast destruction of material wealth in the world, however, its effects may be disguised during the busy period of reconstruction, must ultimately bring depression in its train, and the recovery back to normal conditions is slow and arduous. Large issues of War Loan mean increased national expenditure of an unproductive type, and thus entail unprofitable taxation. The creation of money and credit, especially credit which takes the form of paper money, is a pleasant process while it lasts, but carries an inevitable sting; for every excess of paper currency has to be liquidated, and the value of money has to be reduced into accord with the needs of normal business. High prices, fostered by the curtailment of productive output, and not uninfluenced by the expanded currency, force up wages; and when prices fall—again as fall they must—capital suffers. Wages have to be reduced and labour complication arise". This long extract is given to show that the best among the Indian officers are not mere jingo enthusiasts to keep up the War fever, but are aware of the extreme gravity of the problems of reconstruction. We have dealt with elsewhere the whole question of Currency Reform which bulks so largely in the after War problems as here adumberated. We are yet awaiting any definite proposals for reconstruction in more substantial directions.

C. THE SECOND PEACE BUDGET.

After more than a year the second Indian Peace Budget does not show any substantial evidence of the Government of India waking up to the needs of Reconstruction. Perhaps there is a justification in the fact that the whole system of government in India is in the melting pot, including Finance. We are waiting for the constitutional Reforms to get into swing before embarking upon ambitious schemes of social regeneration. In that case the second peace Budget needs hardly any comments. But for the unfortunate war with Afghanistan and the attendant frontier squabbles, the budgeted surplus for 1919-20 would have been realised, as the revised figures of the Revenues on the Imperial side exceeded the Budget figures, by 6 crores, once again due to cautious financing. But the Afghan War caused a deficit of £14.3 million. The Budget for 1920-21 takes the Revenues at Rs. 193.832 crores, or, at the old conventional rate of Exchange, at £129.22 million and the expenditure at Rs. 196.566 crores. Using the Provincial balances to the extent of Rs. 5.740 crores we get a surplus of Rs. 3.006. The details are :—

1920-21 BUDGET ESTIMATES.

Revenue.	Rs.	Expenditure.	Rs.
Land Revenue ..	35,56,68,000	Direct Demands ..	20,39,10,000
Opium	4,41,30,000	Interest	10,61,04,000
Salt	6,73,26,000	Posts & Tel. ..	8,51,85,000
Stamps	11,26,12,000	Mint	35,08,000
Excise	20,31,10,000	Civ. Dept. Sal. &c. ..	41,94,45,000
Customs	25,51,45,000	Misc. Civ. Ch. ..	11,15,08,000

Revenue		Expenditure	
	Rs.		Rs.
Income Tax.	16,99,57,000	Fam. Relf.	1,50,00,000
Other heads	7,75,46,000	Railways	18,11,05,000
Interest	4,37,74,000	Irrigation	6,50,92,000
Posts & Telegraphs ..	9,26,00,000	Other P. W.	13,58,46,000
Mint	1,01,93,000	Military	57,17,20,000
Civ. Dept. Recpt. ..	3,12,85,000	Deficit in Paper Cur. Res.	7,07,38,000
Miscellaneous	3,32,28,000		
Railways	32,56,03,000	Total ..	1,96,56,62,000
Irrigation	8,91,78,000		
Other P. W.	55,69,000	Surplus	3,00,69,000
Mil. Receipts.	2,14,02,000		
Provincial Balances ..	5,74,05,000		
Total ..	1,99,57,31,000		1,99,57,31,000

The noteworthy feature of this Budget, besides the heavy military Expenditure and the grave Exchange situation, was that it repealed the Excess Profits Duty Act, and dropped the Supertax on the undivided profits of companies and firms, to be replaced by another Super-tax corresponding to the Corporation Tax of America. It will be assesed at the flat rate of one anna in the rupee on the total profits exceeding Rs. 50,000. Like the old Super-Tax it will also be in addition to the Income Tax; while the old scale of Refunds is to be dropped. The Super-tax on individuals remains unchanged. A rigorous economist would have desired the continuation in some form of this tax on the unearned War profits, for the present is not the most opportune moment for surrendering 5 crores of revenue to rich capitalists when our sterling securities are depreciating by more than 50 p. c. of their face value owing to a phenomenal rise in Exchange, while the provision of Reserse council of £ 2,000,000 a week increasing this loss. The proposal for an unlimited rupee Loan is another weak point which must be deplored, since, though meant to placate the capitalist, it does not meet our short term liabilities now maturing, except by postponing the evil day. Increase in taxation was inevitable, and, if the present factors continue, is only delayed till a more opportune moment. The resolution stopping the unpaid portion of the additional war contribution voted on September 10, 1918, is an act of the merest justice, since both the conditions contemplated at the time—India being burdened with a war of her own, and a heavy famine—have occured. The appointment, finally, of a Committee of the Imperial Council to investigate the possibilities of Imperial Preference, will, it is to be hoped, not prove mischievous if it confines itself only to the **Statistical inquiry** as a preliminary step.

PART VI.

CHAPTER I.

PROVINCIAL FINANCE.

CI. Introduction.

We have hitherto considered the financial system as a whole—as a single unit administered by the collective central entity known as the Governor-General in Council. There is a historical justification for such a treatment of our subject, in that what we now understand by a system of financial decentralisation—what is now considered by the leaders of Indian public opinion as the ideal of constitutional progress—the accomplishment of Provincial Autonomy—is relatively speaking of very recent origin. There has, indeed, been some sort of decentralisation in financial administration as in other department; but the principles influencing these arrangements are widely different from those which governed the schemes of the early authors of such decentralisation. But, whatever may be the value of such a justification from the stand point of history; whatever may be the utility of presenting in a connected form the working of the entire system as seen from the stand-point of a central government; whatever the future may have in store for the rival principles of Provincial autonomy and Imperial absolutism, we cannot, in such a study of the Indian financial system as his here attempted, lose sight of the fact that Indian Revenues and Expenditure are divided between the Imperial and Provincial Governments, in accordance with principles which have been fashioned after fifty years of experience. That the student may not find his sense of proportion in the study of Indian finance obscured, we have set out a picture of the entire system in the preceding sections. That the politician or statesman might not confuse the issues we shall now briefly trace the development of this singular system of administrative devolution for purposes of convenience, rather than with any great regard to principles of finance, and then offer such criticisms and suggestions as, from our own past experience and the experience of other nations similarly situated, we find applicable to the case in hand.

CII. ORIGIN OF FINANCIAL DECENTRALISATION IN INDIA.

The old Presidencies of the East India Company were all too full of the memories of their independent origin and authority to submit, even after the Regulating

Act, to the grinding authority of the Central Government· In those days the difficulties of communications and the intervention of large tracts of independent territories made the control of the Central Government impossible to exercise, even when it had the moral support of the Supreme Home authority behind it, even when Parliment had recognised the necessity of and conferred the authority upon, the Government of India to exercise control over the revenues and expenditure of Provincial Governments.* So long as the means of communications remained defective; so long as the Central Government itself had no well conceived plan of financial administration, the control required by Parliamentary enactment was nominal. In theory all the revenues from all the districts under the administration of the Company were collected, by their local officers, on behalf of the Government of India; all the expenditure defrayed in the name of the same authority. In practice the Local Governments had pretty fully a free hand, not, indeed, as in the glorious old days before Regulating Act, to commence wars on their own authority, sign treaties and annex territories, but at least to ministers to the needs of their province from the revenues collected by them under the formal authority or sanction of the Governor-General in Council.

But after the Mutiny, when a special department was created by the Central Government for putting its own house in order, the possibilities of this centralisation began to make themselves manifest. The rail-road and the telegraph wire had between them put an end to the old time isolation of the provinces. They came into closer contact with the Government of India, and, therefore, more directly under its control. The Imperial Government were, after the Mutiny, endeavouring their utmost to effect retrenchments in every direction. And the Provincial Governments, anxious to accomplish ambitious schemes of material improvement and administrative reform, found themselves soon· called to halt. "The Supreme Government controlled the smallest details of every branch of the expenditure" say the Strachey brothers; "its authority was requird for the employment of every person paid with public money, however small his salary; and its sanction was necessary for the grant of funds even for purely local works of improvement, for every local road, for every building however insignificant".† But the Imperial Government were too keenly conscious of their needs to think of relaxing their legal authority, even apart from a not illegitimate suspicion that the Provincial Governments were really clamouring for more money only to increase their own importance, not because they really needed the funds ‡ The Imperial Government did, indeed, gradually realise that for a country. as

* By the Charter Act of 1833 it was provided that "no Governor shall have the power of creating any new office or granting any new salary, gratuity or allowance, without the previous sanction of the Governor-General." See sections 39 and 59 of 3 & 4 Will IV. C. 85.

† Op. Cit. p. 131. Cp. the following observation of the Decen tralisation Commission (1909) para 54. Save in respect to local cesses which were levied in some provinces, principally for roads, schools and other items of local expenditure, each provincial Government was absolutely dependent on sums annually assigned to it by the Central Government, for the upkeep of its administrative services."

‡ The much quoted passage from a minute by General Strachey, Secretary to the Government of India in the Public Works Department, may be quoted here in illustration and support of the remark in the text. "The distribution of the public incomes degenerates into something like a scramble, in which the most violent has the advantage, with very little attention to reason; as local economy leads to no local advantage the stimulus to avoid waste is reduced to a minimum; so, as no local growth of income heads to an increase of the local means of improvement, the interest in developing the public revenues is also brought down to the lowest level." cp. Strachey, op. cit. p. 139.

large as the Continent of Europe with as many diversities of social and economic conditions, a single system administered from one centre is bound to be occasionally insupportable by the inequalities it involved. They also felt the one justification that the local Governments had in making clamourous demands upon the Government of India their ignorance of the demands upon the purse of the latter. They often made allowance for a sense of irritation which the provincial Satraps may have felt at what they considered an unwarrantable interference of the Imperial Government into the most trivial details of every day administration. From 1860 onwards the Imperial Government also appear to be realising their own inability at once to control and yet to carry on works of material benefit as vigorously as the Provincial Governments rightly desired On the other hand they perceived with regret that the officers of the Provincial Government, who were necessarily the men to collect and spend the revenues, did not do all they might have done in the way of diligence or economy; and their masters, the provincl governors, had no incentive to enforce economy or diligence upon these officers. Frequent conflicts arose between the Imperial and the Provincial Governments in which the latter were aggressive exactly in pro portion as the former were wrong* It was clear such a state of things could not long continue. The Provincial Governments could not undertake any scheme of improvement in their governments without fear of undue interference from the central Government; and these in their turn could not budget with any feeling of sympathy or harmony or certainty in view of the unceasing remonstrances from provincial Governments. As early as 1860 General Dickens had suggested a scheme of Reform with a view to provincialise finance. The Finance Minister Mr. Laing himself made references in his Budget speech to the need for such a reform† His successor Massey cordially supported the suggestions of Sir R. Strachey in the same direction, though the time does not seem to have been ripe until the administration of Lord Mayo to carry out the reform.

CIII. LORD MAYO'S SCHEMES OF PROVINCIAL FINANCE.

Convinced that without an ample measure of liberty and resources the Local Governments could be expected neither to economise nor to undertake with enthusiasm works of local improvement; satisfied that the Government of India was incompetent to judge of local requirements and yet bound to interfere

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* Lord Curzon observed in one of his valedictory speeches: "In old volumes of our proceedings, which it has been my duty to study at midnight hours, I have some times come across peppery letters or indignant remonstrances, and have seen the spectacle of infuriated pro consuls strutting up and down the stage.. ....I am not one of those who hold the view that local Government are hampered in their administration by excessive centralisation, or that any great measures of devolution would produce better results..... I believe in a strong Government of India gathering into its own hand and controlling all the reins. But I would ride local Governments on the snaffle, and not on the curb, and I would do all in our power to consult their feelings, to enhance their dignity, and to stimulate their sense of responsibility and power.

† The Finance Minister Laing--observed in his, Budget speech of 1862-63: 'If this great empire is ever to have the roads, the schools, the local police, and other instruments of civilisation which a flourishing country ought to possess, it is simply impossible that an Imperial Government can find either the money or the management....It is of the first importance to break through the habit of keeping every thing in dependence on Calcutta, and to teach people not to look to Government for things which they can do far better for the mselves...... It is most desirable to brerk through. the system of barren uniformity and pedantic centralisation, which has tended in times past to reduce all India to dependence on the bureaus of Calcutta, and to give to local Governments the power and the res ponsibilityof managing their own affairs."

in local affairs so long as it alone was responsible for the finances of the entire country; impressed with the belief that unseemly squabbles in the conduct of the Government would be as unavoidable as they were undiguified, Lord Mayo, in his resolution dated 14 December 1870, proceeded to define the principles of a scheme of financial decentralisation. The need for maintaining a strong Central Government was recognised by Lord Mayo and his colleagues to be too elementary and imperative to admit of discussion. The scheme of decentralisation they sought to formulate was, therefore, one purely of administrative convenience, and not on any admission of the principle of federalism in the governance of India. It was found to be more convenient to entrust to the Local Government branches of administration which were obviously suited to local handling. For a lump sum grant of £ 4,688,711 a year handed over to the Provinces, the marginally noted heads of services were made over to the Provincial Government. This grant was less by £330,801 than that assigned to the provinces for the same services in 1870, the grant being calculated on the basis of average expenditure of the several provinces in the preceding five years. It was distributed as noted in the margin among the various provinces, again on the basis of the requirements of each province as shown by the accounts of the Government of India, after certain adjustments had been made. The Provincial Governments were given the departmental receipts from these sources, but if the grant did not suffice they must depend on their own resources. * While refusing to increase these grants, the Imperial Government undertook not to diminish them except in some extraordinary emergency, and even then not without previous consultation with the Governments affected. The Local Governments, moreover, were given, what perhaps they most appreciated, a free hand to make their own appropriation for the several heads within the limit of their assignments. The various items disappeared from the Imperial Accounts, their place being taken by the single item of "Provincial services." If a local Government could not within a year exhaust its assignments, the amount would not lapse but be carried forward as a balance to its credit. The Provincial Governments were enjoined to adopt the Budgetary procedure on the lines of the Imperial Government in respect of the Services assigned to them.

Jails	Printing
Registration	Roads
Police	Civ. Buildings.
Education	miscellaneous
Medical.	Public Imprvoment

	£.
Oudh	206,948
Cen. Prov.	261,263
Burma..	275,332
Bengal..	1,168,592
N. W. Prov.	640,792
Punjab	576,221
Madras	739,488
Bombay	880,075
Total ..	4,688,711

The creation of Provincial Services did not, however, deprive the Government of India of its general right of supervision and control. The Resolution

* Lord Mayo in his speech before the Legislative Council, on March 18, 1871, observed: "It is impossible to prophesy or say at present what can be done in the far future; but I would be misleading the Local Governments if I were not to say that it is our opinion that these sums are now fixed at an amount which cannot be exceeded for at least a number of years". The resolution, however, adds a footnote to para14,- saying, "It will be found when the accounts of the year 1870-71 are made up, that the actual expenditure during that year for the official postage of the services affected exceeds the amount of the grants for that purpose, than the several assignments will be, once for all, increased by the difference."

under Review carefully lays down the conditions of this scheme of tentative devolution. Without the previous sanction of the Government of India

(1) No Local Government could create any new post with a salary of over Rs. 250 a month, nor add to the salaries and allowances of any existing post a like amount;

(2) No new Class or Grade of officers could be created or ablolished, or its pay raised.

(3) The pay and allowances of an officer doing duty in a province, but paid by the Imperial Government, cannot be increased by the Local Governments over the scale sanctioned by the Supreme Government.

(4) No moneys could be removed from the Public Treasuries for investment; and

(5) No services rendered to other departments at the cost of departments now made over to the Local Governments can be diminished.

From these changes Lord Mayo and his Government expected to obtain the much needed relief for the Imperial Exchequer without in any way weakening the authority of the Supreme Government. The Viceroy also hoped that there would be no feeling of a separation of interests but rather one of greater harmony owing to an increase in independence and responsibility of the Local Governments.

CIV. THE EXTENSION OF THE SYSTEM BY STRACHEY UNDER LORD LYTTON.

The plan worked out by Lord Mayo suffered from several weaknesses. The assignments made to the various provinces were each on the basis of the actual expenditure of every province under a given head. This assumed that the actual expenditure represented the real needs of the Province, though the Provincial Governments had all along protested against their local projects being handicapped for Imperial considerations. The scheme of Lord Mayo ignored altogether the indisputable fact that there were gross inequalities as between the provinces in the matter of grants and burdens, and that a system which tended to perpetuate these inequalities cannot prove uniformly acceptable. In defence, it could only be urged that if the Government of India had started to find out a really equitable basis of distribution, it would never have been able to evolve any scheme of decentralisation. The status quo of each province was the only available basis to adopt, leaving the undoubted inequalities to be removed by a readjustment of local burdens in the future. Another criticism that might well be urged against the scheme is that it gave no interest to Local Governments for exercising diligence in revenue collections. It was notorious that considerable leakage took place in such important heads of revenue as Stamps or Excise or

Customs. The provincial Governments, not interested in revenues, did not percieve the loss to the Treasury through such leakage. The scheme had, no doubt, accomplished the main objects of its authors; there was greater harmony between the Imperial and Provincial Governments and the Local Governments. had been enabled to commence several schemes of local improvement. The great aim of economy also was accomplished in that the process of continuous growth was arrested, while the expenditure was directed to more useful channels * But the central defect noted above made the system shorn of many other advantages that might reasonably be expected in the shape of improvement of revenues and the consequent avoidance of unnecessary taxation which would otherwise have been necessary.

Recognising these defects the next step forward was taken in 1877 under Lord Lytton, when all the remaining services, except those directly administered by the Imperial Government were made over to the Provincial Governments along with their connected receipts. Previously the income of the Local Government was derived from a grant or Assignment, which, though not obsolutely fixed, was incapable of appreciable expansion. The new services transferred in 1877 were those of Land Revenue, Excise, Stamps, Law and Justice, General Administration, Stationery and Printing. For their administration no lump-sum grant was made but a share in some specified heads of revenue, which, without local diligence suffered grievously from evasions. The principal heads of revenue thus shared were: Excise, Stamps, Law and Justice and some other items varying from province to province. The License Tax and some Railways were also made over. The arrangement was that the revenue from these sources were to be taken by the Provincial Governments; but if they showed any surplus over the estimated figure from these heads in each of the Provinces, the Imperial Government should be given one-half, while in case of deficit the same authority should be made to bear an equal proportion. This did not give any power of fresh taxation to the Local Governments† nor change any of the conditions of general supervision and control laid down in Lord Mayo's Resolution.‡ In carrying out these changes, since the arrangement with each province was different, the system of making separate contracts was for the first time adopted, and that the contracts may not stereotype what might prove to be an unfair arrangement, they were concluded for 5 years only in the first instance.§

* Between 1863-4 and 1868-9 the charges for these services had grown from £ 5.112,000 to £ 6,030,000 or about £ 200,000 a year. In 1870-71 Lord Mayo's Government reduced these charges to £ 5,197,000. In 1876-77 the expenditure on all the assigned services showed practically no change from 1870-71, thus showing that an effective stop had been put to the yearly increment. "When the figures were examined in details, they were still more satisfactory, for they showed that there had been a reduction of expenditure on nearly all hands excepting "Education" and "Medical". Strachey, op. cit. p. 142.

† "What we have to do is not to give to the Local Governments fresh powers of taxations but, on the contrary, do all that we can to render fresh taxation unnecessary, and to give to these governments direct inducements to improve those sources of existing revenues which depend for their productiveness on good administration" Financial Statement, 1877-8 Sir. J. Strachey.

‡ "The Governor-General in Council will not relinquish his general powers of supervison and control, but his excellency will, as far as possible avoid interference with the details of the adminstration of the transferred revenues and services, and any embarrassment of provincial finance".

§ In the Settlement or contract, made with Assam and Burma in 1879 all the revenue and Expenditure which could possibly be treated provincially were made over to the Provinces and for the balance a fixed share of the Land Revenue, Forests and other items was entrusted to the Provinces. The Madras Government did not come within the arrangements made in 1877-8.
See Strachey cit. p. 143.

Under these arrangements the total Provincial Revenues amounted in 1880-81 to £10,000,000 in addition to a lump sum grant from the Imperial Government of £4,250,000 not counting the strictly local Income of £3,000,000*. Without taking into account the last item, the Provincial Governments obtained control over more than 20 % of the total Revenues of India, and most of the ordinary services. Within limits they were independent of the Imperial Government and free to expand as they chose.

CV. IMPROVEMENTS BY BARING AND RIPON.

The settlements made by Lord Lytton and Sir J. Strachey had made different provisions with different provinces mainly because the settlements had been concluded at different dates. In view of the differences in the financial position of the different provinces too great an insistence on uniformity would have contradicted the fundemental principle of the policy. Still there was room for a greater co-ordination, if for nothing else for the sake of avoiding a needless show of discrimination. As the experience of the new arrangements began to accumulate, it became manifest that the share reserved for the Imperial Government was not, in every case, all that it might have been, while the interest accorded to the Local Governments in the great branches of revenues, like the Land Revenue or Forests, was not substantial enough. If he had had time to revise the Settlements, Strachey himself intended to make the modifications on the lines suggested above. As it was, the changes were carried out by Major Baring under Lord Ripon, than whom India has not yet had a Viceroy more genuinely interested in the progress of local institutions. † The quinquennial settlements made in 1882 abolished the corner stone of Lord Mayo's original scheme—a fixed lump sum grant to the Provinces—and instead made over all the revenues derived from specified sources like Civil Departmental Receipts or the income from civil buildings. As regards the other heads, which had previously been transferred. Forests and Registration were divided between the two governments, for the most part in equal proportions. The balance, still remaining unfavourable to the Provinces, was made good, not by a lump sum as

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* What Strachey contemplated by way of revision has been thus described by himself.

"The revenues and charges arising from Tributes, Salt, Opium, Allowances and assignments, the administration of the post office and telegraphs, the Political Department, the East Indian Railway, the Guaranteed Railway Companies, and all items recorded only in the accounts of the central Governments, would have remainded wholly imperial. The revenues from Forests Excise and Assesed Taxes, Stamp and Registration, and the import duties on liquors, would have been shared equally between the local and central Governments. Each local Government would have received a fixed proportion of the net land Revenue to make good the difference between its assigned revenues and expenditure." Op. cit. p. 146.

† Said Major Baring apropos of these changes:—

"One result of the Provincial arrangements concluded in 1882 was that of the four peculiar dangers to which the finances of three India were exposed viz. War, a dimunition of the Opium Revenue, fall of Exchange and Famine, the first three had to be met by the Government of India, and *only* the fourth was felt by the Local Governments."

before, but by a fixed share of the land Revenue. The general result of these Settlements of 1882 was that the revenues of the Provincial Governments were for the next five years made up of the marginally noted sources. With regard to the extraordinary charge of wars and Famine Relief it was settled that no demand was to be made on provincial Governments except in case of a disaster so abnormal as to exhaust all the reserves of the Supreme Government, and to necessitate the suspension of the entire machinery of improvement throughout the empire. In the Afghan War demands had been made upon Provincial resources which had left them entirely inadequate for ordinary administration. It was to guard against such unusual demands which, when made, would upset all calculations made by the Provincial Governments for their programme of improvements, that a definite pledge was given. In the case of Famine also the Imperial Government undertook to come to the rescue of Provincial finance, as soon as it was evident that the famine was severe, and that it would embarrass the resources of the Provincial Governments, without regard to the actual amount spent. Besides, as in the Imperial Budget provision was made every year of a million sterling for relief of famine, it was not incumbent on the provincial Governments to accumulate any special reserve on that account. The Provincial Governments thus obtained a much greater measure of idependence than had ever been the case before. *

	£.
1. Wholly Provincial heads..	4,000,000
2. Revenue from Divided heads	8,000000
3. A varying proportion from certain heads	23,000,000
4. A nominal proportion from others	7,000,000
Total ..	42,000,000

CVI. OTHER CHANGES AND THE FINANCIAL COMMITTEE OF 1887.

The working of the contracts made in 1882 disclosed certain points of weakness which were attempted to be modified in the 20 years that followed in one way or another. From 1881 to 1884 the Local Government had abundance of funds as much because of the great prosperity in the general finances, as from the accumulated balances to their credit. During the Afghan War the Imperial Government had been obliged to enjoin restrictions in provincial expenditure and to demand a contribution of £670,000 from the Provincial Governments. This was now returned and the restrictions were removed. The heavy expenditure of the three following years displayed a certain amount of wasteful enterprise which the Imperial government wanted to check. If in the new contracts to be made in 1887 the provincial revenues did not keep up to the scale of these three years expenditure, it would involve a most undesirable element of fluctuations. Hence from April 1st. 1884, it was required of every provincial Government that it maintain with the Imperial Government a prescribed minimum balance as shown in the Budget estimate; and under no circumstances was this balance to be allowed to fall below the minimum. In 1887 when the contracts of 1882 came to an end the Government of India appointed a Financial Committee to consider the possibilities of retrenchment in view of the heavy fall in Exchange combined with an increase of the Army by 30,000 troops. The result of the revision of

the provincial contracts was a transfer of Rs. 64 lakhs from the increased receipt in the Provincial heads of revenue to the Imperial Government. Even if we make an allowance for the slight increase in Provincial grants, the net gain from revision of the contracts to the Imperial Government was Rs. 55 lakhs. The same operation was repeated for the same reasons in 1891-2 with a gain to the Imperial Government of Rs. 46·63 lakhs. The accumulated balances of the Provincial Government were taken up by the impoverished Imperial Government in 1887 and again in 1890, though in the following year the "Loan" was refunded.*

The Committee of 1887 had, however, suggested radical modifications of the whole system of Provincial settlements. In a note submitted by 4 members of the committee † they recommended :—

Besides removing the perennial cause of irritation against the high handed manner in which the Imperial Government resumed the balances of the Provincial Governments, it would secure to the Local Governments half the normal growth of their provincial revenues, thereby enabling them to keep up a continuous policy of internal improvements. While unable to secure complete equality of burdens of the Imperial Expenditure as between the various provinces, these suggestions yet secured to those provinces which contribute less than half their revenue to the Imperial exchequer, an exemption from the liability to meet imperial demands, if need be by reducing their own expenditure with a view only to afford relief to those who contribute more than half. If the Committee's recommendations had been carried out the then existing level of local expenditure would have been left untouched. On the other hand the effect of paying half the increase would tend in course of time to equalise the burdens. But the greatest advantage of the proposals lay in this : that while it made ample provision for the needs of the Imperial Government, it imposed some sort of check upon its spending propensities. Besides leaving to that Government the entire growth in its own sources of revenue, it gave half of the increment in the Provincial sources and a power to demand further contributions if needed. The scheme was based on the hope that in normal times more than half of provincial revenues would not be applied to non-provincial purposes.

These recommendations the Government of India did not accept on the ground of increased military needs and Exchange troubles preventing any surrender on their part of a possible accretion to their resources. In 1897 was made the last

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* The balance resumed represented 25 % on the increased revenue, that accrued to the Provinces during the currency of the arrangement which expired in 1891-2. The Local Government necessarily protested against such resumptions of the balances they built up by suffering privations themselves. The following extract from the speech of the Lieutenant governor of Bengal in the supreme Legislative council represents clearly the local view on the matter. "I must say I deprecate the way in which these quinquennial revisions have too frequently been carried out. The provincial sheep is summarily on its back, close clipped and shorn of its wool, and turned out to shiver still its fleec grown again. The normal history of a Provincial contract is this—two years of screwing and saving and postponement of works, two years of thrown resumed energy on a normal scale, and one year of dissipation of balances in the fear that if not spent they will be annexed by the Supreme Government directly or indirectly, at the time of the revison. "Budget Discussion 1896-97.

In 1894-5 the same curse of resuruption of Provincial balances was followed in the next year by refund

† These were: Sir Charles Elliot, President Sir Wm. Hunter, Mr. Justice Cunningham and Mr. Justice Ranade.

quinquennial revision under the old principles. An estimate was made of the expenditure in each province on all the services with which the Provincial Government was charged; an adequate proportion of the Provincial revenues was set aside for that purpose. The Provincial Governments, generally speaking, retained the whole of the Receipts from Provincial Rates, Courts of Law, Jails, Police, Education, Medical and Local Marine Services. Pension contributions and minor irrigation works, certain State Railways and major Irrigation works, Buildings and Roads. Stationery &c.: ½ of the stamps Revenue: ½ of the Assessed Taxes, Forests and Registration receipts: ½ of Excise; and ¼ (generally) of the Land Revenue. Out of this they had to meet the expenditure on most of these heads, and a share of the cost of collection corresponding to the proportion they received, except in the case of Land Revenue of which the whole cost of collection was borne by the Provinces, except in Bengal. Within the limits of their resources the Provinces were also made responsible for Famine Relief, some Political charges and miscellaneous expenditure. The total Revenues assigned to them was in 1901-2 £16.746 million or Rs. 25.12 crores, while the total collctions in which they were at all interested amounted to £36.811,000 or Rs. 46.33 crores, nearly 50 p. c. of the gross revenues of India.

CVII. THIRTY YEARS OF PROVINCIAL FINANCE.

We have now briefly reviewed the gradual evolution of a system of Financial decentralisation, which, without being based on any considered principle of division or coordination, had nevertheless, in thirty years, effected considerable economies. During this period the principles which originated the system—the need for administrative convenience—remained substantially the governing idea of the whole arrangement. The revision of contracts, the resumption of increments in revenues by the Imperial Government irrespective of the needs of the Provincial Governments; the demand for special contributions were all indications of the old idea of unchallenged absolutism of the Central Government. Strachey had observed in one of his financial statements that the one thing necessary for India was a strong Central Government; and it is but to be expected that such a person encouraging the system of Local Finance would naturally do so only because he considers it an excellent means of adding to the strength and importance of the Supreme Government by freeing it from unseemly brawls. The very tests by which the success of the system was judged were unavoidably coloured with the taint of the original principles. Thus it was observed again and again that the system had helped to economise by keeping down expenditure. Once you accept the principle that saving in provincial expenditure was a good test of of the success of Provincial finance, there could be no logical ground to quarrel with the resumption of unspent surpluses and obvious increments by the Imperial Government whose needs were unquestionably to dominate the situation. In that view of the scheme of Provincial Finance the fact that the bulk of the heads or

internal Expenditure had been made over to the Local Governments, and that any saving in them could be only purchased at the cost of efficiency in internal administration would have no influence on the situation. The Imperial Government had delegated these functions to the Local Governments, not so much because they admitted the superiority of the local authorities in administration, but rather because they felt their inability to effect the desired economies themselves. Those, therefore, who advocated greater independence for the provincial Governments and wider margin of discretion in outlay were arguing on an assumption which the Government of India did not admit to be the basic consideration in the arrangement. Hence the further contention about the distribution of the Imperial burdens on the various provinces being without any intelligible principle of ability, population or resources of the Provinces, was based on a view of the case not permitted by the authorities, however sound it may seem in theory.* There really could be no other test than economy, because there was no basis but convenience of the Supreme Government. The Provincial Governments, therefore, necessarily got the worst in every reshuffling of the cards, because from the outset they were debarred from having any trumps. Claims on account of War, of Opium, of Exchange were all reserved for the Imperial Government who could, therefore, cajole or coerce at its will. As the system was never meant to constrain the Imperial Government, it was idle to complain that while Provincial Expenditure—which, in proportion as it increased, would have benefited the country, was rigorously kept down, the Imperial expenditure went on increasing unchecked in fearful proportions. In the eighties the Government of the United Provinces tried with success the experiment of pledging its own credit for a guarantee to locally subscribed capital for the construction of a local Railway of a promising character. As the venture proved a success the Central Government felt it to be a menace to its own unchallenged position. The Secretary of State was, therefore, at once made to declare that all borrowings, however and by whomsoever carried out, must be made over to the Central Government to be by them distributed as seemed best to them.†

CVIII. THE QUASI-PERMANENT SETTLEMENTS. 1904.

So long as the Government of India was beset with the bogey of exchange and the nightmare of Famine, it was impossible to make it perceive the true principles

*In his evidence before the Welby Commission the late Mr. Gokhale vigorously criticised the system of Provincial Finance as it was in the closing years of the last century. He gives two tables from the calculations made by Sir, J. Westland to show how disproportionate was the burden on the different provinces.

The percentage of Revenue surrendered by each Province to the Supreme Government :—

India Districts	20%
Central Provinces	56%
Burma	58%
Assam	51%
Bengal	68%
N. W. Provinces	76%
Punjab	15%
Madras	52%
Bombay	16%

The contribution of each provinces per 100 of population.

	Rs.
Central Provinces	710
Burmah	3,120
Assam	970
Bengal	1,070
N. W. Provinces	1,770
Punjab	820
Madras	1,230
Bombay	1,550

"These figures" he says "are sufficient to show the totally arbitary character of the present contracts The fact is that these inequalities are a legacy of the Predecentralisation days when the expenditure of different provinces was determined ....not by the resources or of those provinces. but by the attention that their governments succeeded in se- -ing from the central Governments."

† Cp. Strachey, Op. Cit. p. 151 et. seq.

that ought to regulate Provincial Finance. It was in vain to urge on them that the constant dread of Revision was needlessly interfering with continuity of policy in projects of Provincial development. They only saw that the provinces could build up respectable Reserves, which they were, towards the end of the contract, in a hurry to spend. And, since they often found good reason to consider the hasty expenditure of some provinces as a needless piece of extravagance, they felt themselves justified in taking up the surplus for their own pressing needs, rather than suffer it to be wasted. They could not see that their own revisions were to blame in stimulating Provincial extravagance; for the provinces could not frame any schemes unless they were certain of the Ways and Means and they must be allowed time to prepare and mature their plans before commencing operations. But that those plans may not be extravagant, and those operations may not be hurried the provincial Governments must be assured that their balances will not be encroached upon, nor their assignments curtailed merely because of the size of their balances.

When, however, the Exchange trouble was over and Famine Relief more under control, the Government of India were in a better frame of mind to consider the claims of the Provinces. They were not, indeed, going to surrender their right to revise the contract, or resume the surplus if their own abnormal needs demanded such a course*. But within that limitation they were willing to grant a reasonable continuity in policy and resources to the Provincial Governments. The principles guiding the new settlement were: (1) The Local Governments must be given a more permanent interest in their revenues and expenditure. (2) The assignments to them will include a slightly smaller share of growing revenues, (3) The share of revenues assigned to each province separately and to all provinces collectively should bear approximately the same ratio to the provincial expenditure as the Imperial share of growing revenues bears to the Imperial expenditure † With some small exceptions the heads of revenue, which were wholly Imperial, wholly provincial, or divided, were left in the same stage; but the share given to provinces was altered in conformity with the principle stated above ‡. As the aggregate provincial expenditure was found to be rather less than $\frac{1}{4}$ of the total, and the aggregate Imperial Expenditure $\frac{3}{4}$, these proportions were taken as the basis for the division between the Provincial and Imperial shares of revenues. This change must take into account (*a*) the need of backward provinces, (*b*)

* Announcing the change in principles and arrangements in the Financial Statement of 1904-5, the Finance Minister observed:

"It is evident that the Imperial Government cannot undertake any absolute obligation to maintain at all times a definite proportion between the share of increase of revenues, assigned to provincial administrations, and that which it is necessary to retain to meet the growth of Imperial expenditure, and it must always reserve the right to make a special temporary, or more permanent reductions from provincial revenues, if the exigencies of State should require such measures. It must also be borne in mind in apportioning shares of revenues to different provinces, that a larger proportionate assignment is required in the more backward provinces than in those which are older established or more highly developed." Para 39.

It must be observed that these two principles are somewhat incongruous. The clinging to the absolute preference to Imperial needs is a survival of the past, linked to the more intelligent principle of the needs of a province in the future.

† See para 211 of the explanatary Memorandum to the Financial Statement of 1904-5.

‡ The heads of Revenue and the corresponding Expenditure were to be shared—
(1) In Bengal United Provinces Bombay and Madras $\frac{3}{4}$ Imperial and one-fourth Provincial.
(2) In the Punjab and Burma $\frac{5}{8}$ Imperial and $\frac{3}{8}$ Provincial.
(3) In the Central Provinces and Assam half to half.
Para 212 Ibid.

the projects of special reform suggested by the Supreme Government, and (c) the yield of heads of revenue which were wholly Imperial or wholly Provincial.

These changes in principle were first applied in 1904. The old contracts of 1897 would have normally terminated in 1902, but they were specially prolonged to allow of these changes being made. The net result of the changes was that in the four provinces with which the new settlements were made the Imperial contribution to the Provincial revenues was increased by Rs. 23,89,000 per annum* Finally, in order that the Local Governments may start the new settlements under favourable conditions, the Governments of India sanctioned the following initial grants, Bengal and Madras Rs. 50 lakhs each, United Provinces 30 lakhs, and Assam 20 lakhs.†

The general principles of these arrangements were summed up by the Financial Secretary before the Royal Commission on Decentralisation as follows :—

(1) The Government of India retains certain administrative services, which it is inexpedient to hand over to provincial Governments. They, therefore, reserve the revenue from these sources, and such a share of the other public revenues as would suffice for the expenditure falling on them.

(2) The remaining administrative services being entrusted to Provincial Governments each of them receives an assured income independent of the needs of the Government of India, and sufficient for the normal expenditure of the province.

(3) This Income is given in the form of a defined share of the revenue which the local Government collects, in order that the Local Government's resources may expand along with its needs.

(4) As far as possible the same share of the chief sources of revenue is given to each province to ensure a resonable equality in treatment.

* The details are :—

	Rs.
Bengal Provincial assignment less by	5,00,000
Madras ,, ,, more	16,56,000
United Provinces ,, ,, ...	8,25,000
Assam ,, ,, ,, ...	4,08,000
Total	23 89 000

† In addition to these grants special grants of Rs. 1,62,65,000 were sanctioned for 1903-4 and distributed as follows :

Province..	Grant for Education. Rs.	District Establishment 1903-4 Rs.	Special purpose 1904-5 Rs.	Special public objects 1904-5 Rs.
Central Provinces	2,00,000	1.90.000	3.00.000	1,50,000
Burma	4,00,000	......	....	3,00,000
Assam	1.00.000	1,11,000	....	1.50,000
Bengal	10,00,000	....	50,00,000	5,00,000
U. P.	5,00,000	2.26.000	3,00,000	3.00,000
Punjab	4,00,000	1.36,000	20,50,000	2,00,000
Madras	8,00,000	3,50,000	....	3,00,000
Bombay	6,00.000	3,50,000	10,52,000	3,00,000
Total ..	0.00 000	13,63,000	87,02,000	22,00,000

Under these arrangements the Government of India received the whole of the Revenue from Opium, Salt, Customs, Mint, Railways, Posts and Telegraphs and Tributes from Native States, while Registration fees and Departmental receipts from Police, Education, Law and Justice belonged exclusively to the Provincial Governments. Land Revenue, Excise Stamps, Income Tax and Forests were divided between the two in stated proportions generally equal, as also the receipts from the larger Irrigation Works*. Minor Irrigation receipts were almost wholly Provincial as also those from civil buildings. The divided heads supplied the bulk of the Provincial revenues.

As regards expenditure, Imperial revenues were made wholly responsible for those items of expenditure which were in connection with the sources of revenue reserved for the Imperial Governments, and Provincial revenues were responsible for expenditure incurred within the Province in connection with Land Revenue, including District administration, Registration, Law and Justice, Police and Jails, Education and Medical, Stationery and Printing, and Provincial Civil Works. Charges in connection with Stamps, Excise, Income Tax and Forests were equally divided, while the proportion of Irrigation charges borne by each was determined by the Revenues. Scientific and minor departments administered by the Provinces were charged to the Provinces, as also the Native States under their control. Ecclesiastical charges and the bulk of the Political Expenditure were shouldered by the Imperial Government. As these charges of the Provincial Government were in excess of their revenues, the difference was made up by a **fixed assignment** under the Land Revenue. The ordinary revenues of the Provinces were supplemented in each case by an initial grant, and a special grant to carry out the Reforms under the heads of Police, Education and Agriculture. Finally, new arrangements were made for the Relief of Famine. Every year the Government of India set aside a specific amount, roughly equal to the famine liabilities of a given province on an average, to the credit of the Province conerned, the sum thus reserved being subject to a maximum. When Famine did occur, the whole of this Reserve might be drawn upon by the Province without touching its normal resources. If this credit did not suffice the rest of the expenditure was to be divided equally between the Imperial and the Provincial Governments, instead of being debited wholly to the latter. The Imperial resources might be indented upon still further if the prescribed Provincial balance left was below half its limit. †

If these settlements are examined carefully we would find that there is distinct change of principle. Instead of administrative convenience of the Imperial Government, the considered needs of the Province regulate the amount of revenues

* Irrigation Receipts were first introduced in connection with the settlement made with Bombay and the Punjab in 1905. As these provinces had suffered severely from Plague and their finances consequently in a chronic state of deficit, their Settlements were relatively more liberal. The assignment was increased by 36.92 lakhs a year for Bombay and 16.51 lakhs for the Punjab. The provincial shares of divided revenues were so adjusted as to give a net revenue increment to Bombay of Rs. 8.55 lakhs and to Punjab Rs. 6.78 lakhs. An initial grant of 50 lakhs was made to each.

Similar settlements were made with the Central Provinces in 1906 and with Burma in 1908.

† See the Finance Insurance Scheme elaborated in the Financial Statement of 1907-8 by Sir James Meston.

assigned them.* Instead of economy or retrenchment in the provincial heads of expenditure being regarded as the test of the success of the system, the extent of development in the heads affecting the welfare of the people like education and sanitation was an admitted factor determining the increase of grant. The assignment was for all practical purposes permanently fixed. The supreme Government had, indeed, reserved their right to revise the settlement ; but they had agreed to exercise that power " only when the variations from the initial relative standards of revenue and expenditure were, over a substantial term of years, so great as to result in unfairness either to the Province itself or to the Govrnment of India, or in the event of the Government of India being confronted with the alternatives of either imposing general taxation, or seeking assistance from the Provinces ".† The old complaint about want of continuity in Provincial programmes was to a large extent avoided under the new arrangements. The method of distributing the total revenues between the Imperial and Provincial Governments showed that the Imperial needs were of second rate importance. The portion available for Imperial purposes was taken in the shape of a share of a few of the main heads of revenue, called the " Divided Heads ". But as the distribution of these heads could never be so adjusted as to yield to the province, besides the revenues from the sources wholly provincial, a sum exactly equal to their expenditure, equilibrium was brought about by means of fixed cash assignments, a deficiency being remedied by an assignment to Provincial revenues from the Imperial share of the Land revenue, and an excess by the reverse process. The day had not yet dawned when the Provinces would be entirely free from the controlling authority of the Supreme Government, nor their penchant for interference in Provincial administration by suggestions, if not instructions; though, thence forward, whenever they made new suggestions, which would involve additional outlay by the provinces, they would contribute sufficiently to facilitate the excecution of their suggestions. The provinces were also not free to manipulate as they pleased their resources of revenue as the general rate of taxation was determined exclusively by the Supreme Government, but within the shares made over to them the Provinces obtained a degree of autonomy which was unknown before. They could not alter the general trend of expenditure, or make any changes involving additional outlay of over a prescribed amount, except with the sanction of the Imperial Government. The Provinces could, at most, only make suggestions. The Imperial Government could still issue directions. The Imperial Government could always excuse themselves on the plea of their duty to look to the interests of all provinces alike, whenever they felt disposed not to accept the suggestions made by the subordinate Governments. The Provincial Governments must carry out the instructions of the Imperial Government, parti-

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* " The distribution of revenues between the Provincial and Central Governments was made, except on occasions of grave emergency, with direct reference not to the needs of the Central Government. but to the outlay which each province might reasonably claim to incur upon services which it administered. The first step taken in concluding a settlement was to ascertain the needs of the Province and assign revenues to meet them, the residue only of the income of the Province coming into the Imperial Exchequer " Report of the Royal Commission on Decentralisation, 1909.

† Ibid.

cularly as the latter were always able to back up their directions by specific additional grants. As these grants were ear-marked for stated purposes in advance the Provincial Governments could have no discretion in utilising them. Altogether the decentralisation of Finance as it obtained between 1904 and 1912 afforded a spectacle of a conflict between the old principle of observing the convenience of the Imperial Government, and the new ideal of encouraging the development of the provincialised services. The public opinion in India was beginning to take up the cause of the latter, not so much from a different conception of the Governance of India as from a belief that with greater independence accorded to the Provinces the representatives of the people would be able better to check the smaller provincial governments. *

CIX. PERMANENT SETTLEMENTS OF 1912.

Before the Royal Commission on Decentralisation which reported in 1909, the system of Quasi-Permanent Settlement of Provincial Finance was much criticised. The chief points of criticism were :—

(1) The system of "divided heads" is injurious to Provincial development.

(2) The practice of making Fixed assignments makes the system inelastic.

(3) The spasmodic grant of lump sums is productive of unnecessary interference.

(4) The various settlements showed great inequalities interse.

(5) Powers of taxation and borrowing should be granted to the Provinces.

The first two are interdependent. As the needs of a province inevitably grow, any element in the local resources to meet these needs, which is incapable of expansion, must inevitably tend to make the provincial finances disorganised. The system of making fixed cash assignments in order to bring about equilibrium in Provincial Revenues and Expenditure represented just that element of rigidity which could be avoided only if the principle of "Divided Heads" was abandoned, and its place taken by a surrender to the provinces of the normally growing heads of Revenue sufficient to meet the growth in expenditure. It may, indeed, be conceded that even under the existing system as the revenues conceded are capable of growing in equal proportion to the normal growth in expenditure, the existence of a portion of the Revenues which is inelastic will not matter a great deal. "It is only when the normal increment of revenue falls short of the legitimate increase in expenditure that the fixed assignment becomes an evil and a danger."† If the proportion of the fixed assignment to the total revenues in the hands of a province is unduly large, it should, according to the recommendations of the Decentralisation commission, be converted into shares of growing revenues by gradually

* See Mr. Gokhale's evidence before the Welby Commission and the decentralisation commission. He wanted Indian Finance to be organised on a federal basis.

† Resolution on Provincial Finance, dated 18th May, 1912, No. 27 F., para 5.

surrendering to the Provinces the whole of the revenues under heads which are now divided.* So the Government of India agreed to these suggestions and laid down rules for the conversion of the fixed cash assignments into shares of revenues.†

The question of Specific Additional Grants, which aroused so much acrimonious criticism at the hands of provincial Governments before the Decentralisation Commission, originally arose because the Imperial Government insisted upon a scale of development by the provinces which would have been inconsistent, with the limited resources of Provincial Governments. The government of Lord Curzon had, contemporaneously with the settlements with the Provinces, chaulked out a grand programme of Police and Education reform and Agricultural efficiency, which required considerably more outlay than had been allowed for in the Settlements. As the Central Government were not prepared to upset their newly concluded settlements, the only means of accomplishing the projected reforms was to grant additional sums to the several provinces for specific purposes. In course of time this expedient came to be generally adopted by the Imperial Government whenever they had a sudden unexpected surplus, which they did not want for their own purposes, and would not use for the reduction of debt or remission of taxation. But whether the specific grant was made to carry out a specially pet project of the Imperial Government, or to admit the provinces into a share of unexpected prosperity, the Central Government always prescribed the objects for which alone the grant was to be used. "Tant pis" if the Local Governments could not see eye to eye with the Imperial Government as regards the importance of the object they selected to assist. Since the Provincial Governments had, normally, no claim to such extra resources placed at their disposal by the bounty of the Imperial Government, the latter thought themselves justified in dictating the purpose to which alone the grant should be devoted. But this was regarded by the Provincial Governments as inducing an unnecessary amount of interference from above into local affairs, which they resented all the more as they had no voice in determining the exact amount it received from these grants. The only justification that the Imperial Government could advance was that new lines of policy were often pressed upon them by public opinion, or by example of the more advanced provinces, which it became necessary for the Supreme Government to commend to their provincial subordinates; and as the latter cannot carry out these sudden developments from their ordinary resources the "system of doles" becomes inevitable. The only way to

* The Decentralisation Commission mentioned revenues from Excise and Forests as fit items of revenue which might be entirely provincialised. The Government of India made the Forests Revenues and Expenditure wholly provincial in the settlements of 1911 in all provinces; Excise Revenue and Expenditure were wholly provincialised in Bombay, and were made $\frac{3}{4}$ provincial in the Central and the United Provinces, while the cash assignment was reduced in proportion to the growth in revenue from these changes. Other changes were that the Land Revenue was made half Provincial in the Punjab, (which also get half a share in the Major Irrigation works) and $\frac{5}{8}$ in Burma. See the Resolution above referred to.

† The conditions laid down were:—

"Fixed assignments should be replaced by a share of growing revenue in the following circumstances only:—

(a) When an assignment is so large as to prevent the increment in revenue from keeping abreast of the legitimate and necessary growth of expenditure; and.

(b) When the financial outlook of the moment justifies the abandonment of the necessary amount of growing revenues in exchange for the reduction of fixed charges" Ibid.

avoid ill feeling was to accept the recommendations of the Decentralisation commission. :—

(1) The system should not involve any greater degree of interference by the central with the Local Government than at present exists.

(2) The grants should be given with due regard to the wishes of the Provincial authorities.

(3) They should not necessarily be assigned for the same object in all the provinces. *

The objection on the score of inter provincial inequalities was admitted, but could not be remedied, by the Imperial Government. The fact that at the time of making the Quasi-Permanent Settlements some provinces were more backward than the others ; the fact that in the past some provinces had received better treatment and consequently established a higher scale of expenditure, all showed the historical origin of the system. The inequalities, if any, were the result of the peculiar trend of development rather than of any administrative partiality. Besides there was no satisfactory test of determining equality of treatment in the various settlements. The revisions, moreover, in the past, had favoured every time the weaker governments and thus established a rough equity among them. "Taking the administrative equipment as a whole the Government of India found it impossible to believe that inequality in settlements had gone far enough to starve one province in its necessities in order to load another with luxuries ; and they considered it entirely unnecessary in seeking a basis for permanency, to make any radical alterations in the existing settlements which have been evolved by the slow process of years."†

As regards the Powers of Taxation and Borrowing claimed by the Provincial Government, it must be admitted that without the liberty to tax their local citizens Provinces cannot always meet the discrepancy between Revenues and expenditure without depending on the Imperial Government for aid. Well might they urge that for a country like India the Imperial Government could command very few taxes which would be suitable for all parts of the country equally ; and even when they were, their incidence must necessarily differ in different provinces. The liberty, if given to the Provinces, to tax their own subjects will go a long way to correct ineqalities in the tax burdens which the common taxes of the Central

* In connection with the "system of doles" the Bombay Government had suggested that:—

(a) The Doles should not be made but instead Impérial taxation remitted to an equal amount, to be reimposed if the Provincial Governments needed extra funds. As there was no immediate prospect of remission of taxation the Imperial Government did not consider this suggestion.

(b) Instead of Doles a share of Land Revenue be granted to the Provinces. The Imperial Government thought this point was covered by their decision regarding the fixed Assignments.

(c) Entire discretion should be given to the Provincial Governments as to the appropriation of these grants. The Supreme Government "could not admit that the employment of grant should except in rares instances, be left to the discretion of the Local Government which receives it. While they could readily agree to abstain from critical inquiry into the objects to which a dole is applied, they held that the cases in which it would be necessary to specify the general purposes of the assignment would be the rule rather than the exception. When, for example, considerable sacrifices have been incurred in order to raise money for education they could not contemplate with equanimity its expendiure upon hospitals or bridges." Resolution on Provincial Finance, 18th May. 1912. para 6.

†Ibid, para 7

Government must necessarily involve. There has been justification in the past when Local Government did enjoy powers of local taxation within certain limits for objects of local improvement. The old Provincial Rates, which have now ceased to exist, were abolished, not because they were remnants of Provincial taxation, but because in conformity with their general policy of relieving Land of all miscellaneous burdens, Government had decreed their abolition. On the other hand there would be grave danger in conceeding the right to tax to the Provinces as it might quite possibly stimulate unwelcome provincial rivalries ending in fatal jealousies. So long as the Government remains constitutionally an autocracy, it would be politically enexpedient to grant these powers to irresponsible bodies of bureaucrats. The existing control by the Government of India is the only safeguard against an unjustifiable increase in the burdens of the people. Until, therefore, the advent of responsible institutions, there was nothing to be gained by a relaxation of existing statutory authority of the Supreme Government; and accordingly the Decentralisation Commission suggested no change.* The powers of borrowing, if conceded to the Local Governments, were felt to be a menace to the success of Imperial Loans, as they both had the same market to tap. If the Provincial Governments needed extra funds for projects of great local utility, the Imperial Government were prepared to grant them overdrafts—temporary loans from their own balances. But access to the open market for purposes of local borrowing they refused altogether.

Under these rules the Settlements made after 1911 were declared to be Permanent. The governing condition was that a Local Government must not budget for a deficit, unless it can satisfy the Imperial Government that the excess of expenditure was due to a special non-recurring cause. If the deficit involves a reduction of Provincial balances, suitable arrangements must be made to bring them up to the prescribed minimum. If all the balance of a Local Government is exhausted and an overdraft made upon the general balances, the overdraft is treated as a temporary loan subject to interest at a prescribed rate, and repayable in instalments that the Supreme Government may direct. In future the interference of the Government of India would be restricted to the corrections in divided heads and the totals of revenue and expenditure. The extraordinary Receipts of a Provincial Government must not be applied to ordinary expenditure, or to the repayment of a loan for extraordinay purposes, but only to such non-recurring objects or Public Works as the Local Government may determine upon with the advice of their council. In framing the Provincial Budget the attention of the Government of India must be drawn to the existence of such special items and the use made of them.

*They fully recognise that such taxation is a necessary corollary of a fully decentralised system of finance; but pending the development of such a system they consider that no useful purpose will be served by an attempt to define its proper scope or to lay down the critiria which it should satisfy. Financial autonomy for the provinces, if and when it arises, must carry with it the power of taxation." Resolution of May 18, 1912, para. 12.

CX. THE EXISTING SYSTEM.

We may now examine the salient details of the system as it works to-day. The following table shows the distribution of Provincial and Imperial Revenues. These figures are taken from the Budget of 1919-20. They show that the total Provincial Revenues are about 30 p. c. of the Total, or 43 p. c. of the share of the Imperial Revenues. The heads which are wholly Imperial are Opium, Salt Customs, Tributes, Post, Mint, Exchange and Military Receipts. Railways are also largely Imperial. Civil Departmental Receipts and those from Public Works seem to be largely Provincial. The Divided Heads are Land Revenue Stamps, Excise, Income Tax, Forests Registration and Irrigation, as also the Miscellaneous civil Receipts. Out of the total principal heads of Revenue the provincies get £29,490,500, while the Imperial Government gets £49,806,300. In the total the Provinces also get a grant of £1,818,700 from the Imperial Balances. On the side of the Expenditure, the figures are :—

Head of Revenue.	Provincial Share. £.	Imperial Share. £.
Land Revenue ..	11,659,100	10,994,000
Opium	....	3,056,200
Salt	....	3,914,400
Stamps	2,984,700	3,112,400
Excise	8,770,600	3,362,700
Prov. Rates	34,500	100
Customs	....	13,352,400
Income Tax	2,313,800	11,207,700
Forests	3,167,100	185,700
Registration ..	560,700	7,500
Tributes	....	613,300
Interest	338,400	3,299,000
Post and Tel. ..	....	5,716,800
Mint	....	1,303,200
Mint	....	1,303,200
Courts	415,300	21,000
Jails	329,100	84,500
Policy	122,400	6,200
Ports	125,500	....
Education	316,900	7,600
Medical	103,400	1,400
Sanitation	22 000	11,100
Agriculture	145 600	19,500
Scientific	217 900	8,100
Superan- nuation ..	85 700	136 200
Stationery	60 500	44,000
Exchange	....	1 066,700
Miscellaneous ..	202 800	909,500
State Rys.	1 300	21 220,600
Subsidised Rys. ..	....	151,000
Irrigation	2 909 500	2 589,100
Pub. Works	259 900	53,000
Mill Recpt.	....	1 587,300
Total ..	36 965 400	86 225 400

		Provincial £.	Imperial. £.
1.	Direct demands on Revenue	7,459,300	3,834,100
2.	Interest	316,500	7,447,700
3.	Posts & Telegraphs	..	4,580,200
4.	Mint	..	284,500
5.	Civil Departments	19,664,700	4,671,700
6.	Miscellaneous Civ. Charges	2,882,700	3,233,000
7.	Famine Relief	283,700	1,218,700
8.	Railways	800	14,468,100
9.	Irrigation	2,227,700	1,847,700
10	Army	..	42,782,300

Of the total Expenditure of £123,964,000, the Provinces bear £38,606,700 or 31 % including 66% in the collection charges and other Direct demands on Revenue, 77½ p. c. of the Civil Departmental charges, 47 p. c. of the Miscellaneous Civil Charges 19. p. c. of the Famine Relief charges and 86 p. c. of the Civil Buildings and Roads charges. The Imperial Government bears all the charges for the Army, the Debt, the Communications and a small proportion of the charges of the general civil adminsitration.

THE FOLLOWING TABLE GIVES DETAILS BY PROVINCES.

Province	Opening Balances.	Revenue. Revenues	Revenue. Special Grant.	Expenditure	Closing Balance.
	Rs.	Rs.	Rs.	Rs.	Rs.
Madras ..	1,96,54,400	8,51,18,000	34,50,000	9,60,68,000	1,21,59,000
Bombay ..	4,61,26,000	10,10,97,000	27,30,000	10,36,55,000	4,62,98,000
Bengal ..	3,66,02,000	6,78,14,000	48,69,000	7,70,62,000	3,22,23,000
United Provinces..	2,58,66,000	7,81,86,000	29,17,000	8.53,56,000	2,16,13,000
Punjab ..	2,23,35,000	5,70,95,000	17,55,000	6,02,28,000	2,09,57,000
Burma ..	1,42,54,000	6,24,56,000	14,44,000	6,63,50,000	1,18,04,000
Bihar and Orisa ..	1,45,04,000	3,25,89,000	20,99,000	3,76,52,000	1,15,40,000
Central Provinces	1,29,04,000	3,21,07,000	12,24,000	3,50,98,000	1,11,37,000
Assam ..	39,25,000	1,68,83,000	6,48,000	1,76,31,000	38,25,000
Total ..	19,61,75,000	53,33,45,000	2,11,36,000	57,91,00,000	17,15,56,000

THE NEXT TABLE SHOWS THE GROWTH IN PROVINCIAL REVENUES AND CHARGES DURING THE LAST 20 YEARS.

Year.	Revenues Rs.	Expenditure Rs.
1899-00	22,55,32,733	22,22,31,058
1900-01	23,49,26,706	23,18,90,025
1901-02	25,10,95,497	24,86,47,449
1902-03	24,87,50,983	24,31,11,032
1903-04	27,42,84,849	26,94,31,673
1904-5	26,02,66,420	25,58,86,290
1905-6	28,59,34,827	27,42,91,517
1906-7	32,51,62,149	31,46,58,685
1907-8	32,76,15,794	34,29,33,578
1908-9	36,25,78,569	37,25,88,708
1909-10	37,60,81,158	36,26,70,625
1910-11	40,28,26,688	37,34,08,657
1911-12	42,89,58,927	41,44,22,673
1912-13	49,85,11,026	43,08,00,270
1913-14	46,48,36,768	46,90,80,061
1914-15	45,58,30,312	48,86,82,595
1915-16	46,61,07,363	46,41,43,270
1916-17	48,54,46,240	44,94,86,707
1917-18	50,28,76,687	47,19,90,863
R. E. 1918-19	53,89,00,000	52,27,96,000
B. E. 1919-20	55,44,81,000	57,91,00,000

CXI. BUDGETARY PROCEDURE IN PROVINCIAL FINANCE.

Those who believe the existing system of Provincial Finance a vindication of their idea of regarding the financial administration as being based, or which should be criticised, on the principles governing federal Finance, find a degree of support in the Budge practice adopted in the Provincial Legislative Councils. Prior to the Act of 1919, though there was a non-official majority in the existing Provincial Council, they could no more pass or reject the budget than the Supreme Legislative council. The budget is placed before the Provincial Council as before the Imperial Council with a view to afford an opportunity of expressing their views; and as the facilities for discussion are provided at an early state, the government of the Province may, if it thinks proper, adopt any of the recommendations of their council. To suggest is the privilege of the council: to carry out is within the discretion of the Government. On these lines the Budget procedure is framed in four stages as regards the Provincial Government and their council.

The 1st stage commences by a rough draft of the provincial estimates, prepared by the local government, and including in it all projects involving an expenditure of over 5,000 rupees. All these projects are given in a schedule, appended to the estimates and divided into two parts, the first containing those items which must be carried out because they have already been taken in hand, or because they have been ordered by the Government of India or the Secretary of State to be completed, and the second containing items not so ear-marked. This draft Budget is then submitted to the Government of India in December. The latter correct the estimate of the Revenue with regard to any special grant they may be making to the Province. In consultation with the Provincial Government they also determine the aggregate expenditure for which the Provincial resources must provide. The Government of India can, while the Draft Budget is before them for consideration, alter or add to the items in the first part of the schedule. When their work is over they communicate the figures about the altered revenues and expenditure to the Provincial Government, which terminates the **first stage** of the Provincial Budget.

With the **second stage** commences the role of the Provincial council. The Local Government submits to the Finance Committee of their council, consisting of from 6 to 12 members, half officials and half non-official,* the draft financial statement when returned by the Government of India. The committee deals with the second part of the schedule. It is bound to keep to the total expenditure fixed by the Government of India; but within that limit the Committee can make variations and even insert new items occasionally. The proceedings of the Committee are private and informal, though discussion is free, and disputed points decided by majority of votes. On the conclusions of its labours the committee reports to the Local Government such changes as they have

* The official members are nominated by Government the non-officials elected by their fellows.

made, and the latter, after considering the changes and including any variations in their previous estimates of revenue and expenditure, inform the Government of India of the changes to be incorporated in the total Budget for the whole of India. This ends the second stage.

The **third stage** begins by the presentation of the total estimates to the whole council. The Supreme Government do not, as a rule. alter the figure of expenditure, unless they are obliged to order a general reduction of expenditure. The revenue figure, however. may be brought upto date, and any alteration in taxation is given effect to. The figures, as finally revised, are incorporated into the total Budget, and communicated to the Provincial Government. They print the budget, convene the council. and introduce it there with a speech from the member in charge of the Finances. The council discusses it in a committee of the whole, taking the figures by groups and moving resolutions as in the Imperial council. When all resolutions have been debated and voted upon, the result is reported to the Local Government, who, however. are not bound to accept those recommendations. This terminates the third stage.

During the fourth and the **final stage** very little interest remains in the proceedings. The Budget is presented in the final form to the whole council, and members pronounce funeral orations on their pet schemes not accepted by Government, or raise a chorus of congratulations if they have been successful.

CXII. THE NEW REFORMS AND DECENTRALISATION OF FINANCE.

The final stage in the evolution of the decentralisation of Indian Finance was reached in the proposals for constitutional Reforms submitted by the Secretary of State and the Viceroy in 1918, and fuller details thereon worked out by the dispatches and legislation following. The Report on constitutional Reforms frankly assumes an entirely different standpoint* and makes its proposals accordingly. The old idea of the Central Government being maintained in all its strength and prestige, enunciated so emphatically by Strachey in the seventies, and echoed as late as 1911 by Lord Harding's Government in the celebrated Delhi dispatch, seems to have—if not been abandoned—weakned perceptibly, and its place taken by the new ideal of Provincial Autonomy. As finance is the keystone of the arch of Responsible Government, it is no surprise to find that almost every shade of opinion—which at all professes to support the growth of Responsible Government in India—demands financial independence for the Provinces. The first requisite for such a separation is the abolition of the existing system of "Divided Heads" of Revenue, and all the attendant troubles of making a proper division and avoiding too much interference on the part of the Government of India, looking to the needs of more

* "We start with a change of stand-point. If Provincial autonomy is to mean anything real clearly the provinces must not be dependent on the Indian Government for the means of provincial development. Existing settlements do indeed provide for the ordinary growth of expenditure but for any large and costly innovations provincial Governments. depend on doles out of the Indian surplus. Our idea is that an estimate be first made of the scale of expenditure required for the upkeep and development of the services which clearly appertain to the Indian sphere; that resources with which to secure this expenditure should be secured to the Indian Government; and that all other revenues should then be handed over to the Provincial Governments." Para 201 p. 130 of the Report.

backward provinces &c. The argument, that the inevitable precariousness of the most important heads of revenues is very considerably neutralised by spreading the risks over the different provinces under the system of divided heads, was not considered sufficiently strong by the authors of the Report to upset their whole scheme. Of the most important divided heads, Land Revenue, Stamps, Excise, Income Tax, and Irrigation, the Reforms proposals make Land Revenue* Judicial Stamps, Esxcise and Irrigation works wholly provincial, leaving General Stamps and Income Tax to be wholly Imperial. † Famine. Expenditure ‡ was to be charged on the Provinces, each province, liable to famine, being required to make allowance for this item on the basis of its past liability. The amount thus set aside must not be spent on ordinary purpses, but may be used to swell the balances or for some defensive purpose. If the distress should be too great for provincial resources, the Government of India may intervene; but their aid should take the form of a loan, permanent or temporary, according to the needs the moment. §

If these proposals were adopted, the Government of India would be faced with a deficit, and the Report decided to meet the deficit by fixed contributions from the Provinces." On the basis of the Budget figures for 1917—18 the Report calculated that after all the divided heads were abolished, and provision made for Irrigation and Famine expenditure in the Provincial Budget, the Provincial Surplus would be Rs. 15.64 crores, while the Imperial deficit would be Rs. 13.63 crores. "We would propose to assess the contribution from each province to the Government of India as percentage of the difference between the gross Provincial Revenue and the gross provincial expenditure" ¶

* The Meston Committee on Financial Relations has allowed the general stamps Revenue to be also provincialised, leaving Income Tax to be an entirely Imperial head—In the final arrangements the Government of India has conceded to the Bombay Presidency the Income Tax receipts in so far as they exceed the standard Collection of 1919-20 in that head. The entire scheme of financial relations now obtaining has been violently opposed by the Provinces—particularly Madras and Bombay.

† As regards the provincial section of the Land Revenue it was urged that such a course would involve a deficit for the Government of India. But the Report meets this plea by charging Famine and Irrigation Expenditure on the Provincial Governments. The authors of the Report could not but see the advantages of Land Revenue being provincialised since it plays such an important part in district administration. The Report adds:— "But it is just because divided heads are not regarded as merely a financial expendient but are and so long as they service will be viewed as a means of going behind the Provincial Governments to the Government of India that we feel sure that they should be abolished" Para 203 Ibid.

‡ "We have, indeed, been told that Income Tax is merely the industrial or professional complement of the land revenue; and that to provincialise the latter while Indianising the former means giving those provinces whose wealth is predominantly agricultural an intial advantage ove a province like Bombay" But authors the of the Report saw the inconveniences of provincialising income Tax for the sake of uniformity of rate as well as for not doubling the tax on enterprises registered in one province and earning their Income in another. They held that equality of treatment as between different provinces must be judged on the whole settlements, not individual items of revenue.

§ Para 204 Ibid.

II. "We agreed that in fixing contributions it was undesirable and unnecessary to pay regard to the growing revenues of the Provinces. We agreed also that the contributions should be of fixed amounts We saw that equality of contributions was impracticable, because we have not a clean slate. In spite of the variations in income which result from the permanent settlements in some areas, stereotyped scales of expenditure have grown up, which makes it useless to attempt any theoretic calculations on which ans uniform contribution from the provinces could be basesd" para 206.

¶ The following table, given in the Report para 206, shows the amount that the different provinces would have to contribute if the principle given above were accepted:—

—	Gross Revenue.	Gross Expenditure.	Gross Surplus	Contribution.	—
	Rs.	Rs.	Rs.	Rs.	Rs.
Madras	13,31	8,40	4,91	4,28	63
Bombay	10,01	9,00	1,01	88	13
Bengal..	7,54	6,75	79	69	10
U. P.	11,22	7,47	3,75	3,27	48
Punjab	8,64	6,14	2,50	2,18	32
Burma..	7,69	6,08	1,61	1,40	21
Bihar & Orisa	4,04	3,59	45	39	6
C. P..	4,12	3,71	41	36	5
Assam	1,71	1,50	21	18	3

This manner of obtaining contributions is open to severe objections in that it makes the contributions of the different provinces so utterly unequal. It is true that such a system is the one already in existence, though in a heavily disguised form ; but that would be no answer to the plea that a responsible Government should try to pay its way in the first place. The authors of the Report recognised the weakness of their position in this respect, and promised a more detailed consideration by the first Statutory Commission. The Government of India have since suggested that the first contributions be declared to be only provincial, pending the evolution of the standard, equitable contributions.*

In consonance with the general scheme of the Reforms, the Report concedes the right of taxation to the Provinces, as well as the power of borrowing. With the province made independent of the Government of India, the latter cannot be saddled with financial solvency of the provinces. If the schemes of Provincial development are not to be stifled for want of funds, the power of additional taxation is a necessary corrollary. But that provincial taxation may not conflict with Imperial taxation, it would be necessary to form a schedule specifying on what objects the provincial authority may tax, and on what others the supreme Government may tax. The Report gives a certain number of reserved subjects for taxation to the Provinces, and makes the Government of India a sort of a residuary legatee in this matter.† Within the scheduled list, the Provinces should be free to tax, subject to a veto on the part of the Government of India, to whom, therefore the proposal would have to be forwarded in sufficient time to see if it trenches upon thier own preserves. Outside the listed subjects too, the provinces may tax, provided they obtain the previous sanction of the Government of India. " But this sanction would be withheld only if the proposal trespassed on Indian heads of revenue to an undue extent ; or if the tax was a new one, and the Central Government itself contemplated imposing it as an all India tax; or, if the proposals were, in the opinion of the Government of India, likely to lead to undesirable consequences which would affect its own responsibility "‡ The borrowing powers are proposed to be given under much more stringent conditions. It is, of course, impossible altogether to deny these powers, particularly when the proposals impose the burden of Irrigation and Famine charges upon the provincial Governments; but the report requires the powers of

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N. B. The figures are in Lakhs of rupees the last column shows the net surplus still remaining to the Province.

On this the Government of India in their first Report Dispatch observe :—" When we look at the result however, its equity is obviously liable to attack. From Madras we shall be levying nearly five times as much as from Bombay ; and from the U. P. nearly five times as much as from Bengal." They accepted this principle of contribution at all because " no other device would leave each province with a surplus of it own, and consequently no other device is open to us " Para 61 of the dispatch.

* In any case the determination of the paying capacity of a province is far from easy. All that we can say with assurance at present is that we cannot justify the permanent retention of the criterion proposed in the Report, and that, after full inquiry, a standard scale should be fixed.

† Commenting on this proposal of scheduling certain subjects for taxation at the hands of the Provincial Governments, the Government of India observes, in the Reform Dispatch already referred to "We suggest that in that category there may be placed succession Duties ; taxation of the unearned increment on land ; taxes on advertisements, amusements and specified luxuries ; and generally any supplement to revenues which are already provincial such as land cesses higher court fees, increased charges for registration and enhanced duties upon articles on which the excise is not regulated with reference to the tariff schedule" para 62.

‡Report on Indian Constitutional Reforms, para. 210.

borrowing to be ordinarily exercised through the Government of India, and the distribution of the monies thus raised to be made by the Government of India, or by a committee consisting of representatives of Provincial as well as Central Governments. It is only when this course is considered to be inadequate for the needs of a province, which, nevertheless, hopes to influence the money market by a direct appeal, that a province is allowed access to the money market. Even then it must obtain the approval of the Government of India for the terms of the Loan and the rate of interest, and observe certain prescribed rules.*

The final touch of financial autonomy of the provinces is provided by the suggestion that the balances of the Provincial Governments be no longer under the rigid control of the Government of India, and that the existing rules about minimum balances, deficit budgets and the like be abrogated. The Government of India have so far provided the fund from which the Local Governments may make Loans. These Provincial Loan. Accounts should be removed to the sphere of provincial governments. The Government of India should be paid the balances due to them from the various provinces or the debt funded and interest paid thereon. The only control, if it can be so-called, of the Government of India in the matter of balances in the future would be as regards the accumulation of Famine assignments of the Provinces, or the further drain upon their balances by the Provinces. This last is only a control by way of previous intimation so that the Government of India might know what to expect in the event of some grave all India emergency like a War.

CXIII. LIMITS OF FINANCIAL AUTONOMY. CRITICISM OF THE SUGGESTIONS IN THE REFORM PROPOSALS.

These suggestions, if and when they materialise, would accomplish a revolution in our financial organisation, which for the last twenty years has in one form or another been consistently pressed upon the Government of India by the spokesmen of Indian public opinion. The subjects that had been made over to the provincial Governments from the earliest times were of the utmost importance to the country. The first instalment of decentralisation was made as observed already, with a view to secure the convenience of the central Government. But it was soon perceived that so long as Provincial Finance remained subordinate to the grave preoccupations of the Imperial Government—whether it was, War, Famine or any other emergency—the material development of the country could not

*" The demand for entire liberty to borrow we cannot possibly accept. The narrow Indian market strained as it will be by the coming demand for development in all directions, will have to be carefully nursed by us, and we cannot afford to be embarrassed by unrestricted competition from or among the Provinces. ....So far as it is possible we should endeavour to refrain from questioning the discretion of a province; and it will probably be helpful to lay down certain general rules. For example, priority would inevitably be given to a loan required for Famine purposes, or to finance what is technically known as the Provincial Loan Account. It might also with propriety be laid down that a province is not to borrow except for capital purposes, i.e. for obtaining a permanent asset of a material character. In the case of unproductive debt the establishment of sinking funds should also be prescribed." First Reforms Despatch, para 62.

The first considerable instance in which the powers of taxation and borrowing were simultaneously exercised by a Provincial Government, involving a direct appeal to the money market—was that of the Bombay Government for purposes of the city development. The Loan was for 9 crores, which was subscribed by that Presidency exclusively. The tax was imposed on cotton bales imported and consumed within the city. The Bombay Government would have been better advised had they selected increased Land and Buildings values for taxation along with certain articles of luxury like motor cars cinema films etc.

proceed at a rate thatmay be desired. The removal of the Imperial control-the reduction of the occasions of Imperial interference-thus became the one demand in which the people as well as the Governments became increasingly interested and united. On the other hand political awakening began to support the same demands, though for different reasons. The far sighted practical politician could not but realise that, in the nature of things, the gradual admission of the Indian people to an effective share in the government of the country would come more easily in the narrower sphere of the Local Governments, which, however, from the point of view of the welfare of the people was far more important than the Central Government. The latter, concerned with Imperial, international and inter-provincial obligations, would necessarily continue to be under external control or influence, far longer than the provincial governments. These governments, too, could be influenced or controlled by the representatives of the people, much more effectively than the Central Government, where, owing to external control, or interprovincial rivalries, or racial jealousies the popular element may quite conceivably remain at a disadvantage for a long time. But that this control may prove effective the power of the purse is indispensable, and hence the almost unanimous demand for a financial autonomy to the provinces.

The system outlined above has some unavoidable limitations. Under it the provinces do not become independent states, or even strong members of a federation. The Government of India would still retain the most important factors of material development: Railways and Post Office, Customs and Currency into its own exclusive control. They still continue to retain their power of veto on, and in some cases of previous sanction to, proposals of provincial taxation and borrowing. They remain the residuary legatee of all unspecified sources of taxation, and may demand additional contributions from the Provinces in the event of a war which may be none of the seeking of the Provinces—which may even be opposed to provincial opinion. These are serious limitations and yet inevitable. If the most serious cause for inter-provincial jealousies is to be avoided, if the development of Indian industries by fiscal aid is to be accomplished, Railways and the Customs policy must be in the hands of the Government of India. If the international prestige of the Government of India is not to be weakned, the right to declare war and make peace must also be reserved to the Imperial Government of India, though one of the inevitable consequences of such a right would be direct or indirect addition to the tax burdens of the people in all the provinces at the hands of the Government of India. This may be deplored but is inevitable.

But the gravest defect, in our opinion, in the system outlined above is the proposal for provincial contributions to meet an Imperial deficit. We consider it of the utmost peril to make the Imperial Government a pensioner of the Provinces. Apart altogether from the administrative difficulties of fixing an equal, or, at any rate, an equitable standard or contribution, which is by no means an insignificant difficulty, we think the dependence of the Central Government on the Pro-

vinces, for contributions—which, the provinces will naturally consider, are demanded for wasteful purposes—is the surest way of bringing the Central Government into disfavour and discredit. We are not considering here the purely bureaucratic idea of a strong Central Government for repressive purposes, or jingoist objects, or class interests. We regard the necessity of a strong Central Government as of the first importance because India will have to undertake in future great projects of Social Reform, which in the provincial legislatures may be defeated by vested interests or strong sectarian prejudices; which only a strong Central Government acting independently can carry out. Take the case of a comprehensive scheme of Labour legislation; housing of the workmen; provision for their pensions in old age; insurance in sickness or disability; minimum or standard wages. It is not entirely beyond the bounds of possibility that the strong influence of the employing classes in provinces like Bombay or Bengal may obstruct such legislation in so far as it seeks to make the employer bear his fair share of the burden and not throw it on the general tax-payer, or defeat the proposal altogether. * The combined common sense of the central council may be expected to neutralise the influence of local vested interests if only the Central Government is in a position to take action directly. Then, again, there is the question of backward provinces. We cannot ignore the fact, however, unpleasant. We cannot allow important blocks of the country to lag behind in the standard of material prosperity and comfort. And yet, if the backward provinces were to depend entirely on their own resources, they may not for a long time be able to provide for the local subjects all the facilities that go to make up civilised life. We do not believe that absolute uniformity of conditions is attainable, or even desirable; but we must insist on a certain minimum standard, below which we cannot, in the national interest, allow any province to fall, and upto which certain provinces may not come of their own resources. We would not, on any account, restore the mischievous system of Imperial doles, though we are not quite sure that they are quite without their uses. We would require the Imperial Government to be able to provide this bare minimum off their own bat, regardless of provincial ability in the matter. And this the Imperial Government cannot touch if its finances are in a chronic state of deficit, if they depend for equilibrium invariably on provincial contributions. If the system of doles is bad in the case of Provincial Governments, the system of contributions will be worse for the Imperial Government The former had at least the justification that whenever the dole was granted it was for some specific subject of local benefit. The latter will unavoidably appear in the provincial eyes so much waste. If self-sufficiency

* The one serious criticism against the scheme of Bombay Development is that while it throws the burden of Development in the shape of interest on borrowed monies upon the general public, it practically reserves exclusively for the capitalist class the entire benefit of the housing scheme. Had the Government called upon the Mill-owners and industrialists to build houses for their workmen under compulsion had they required Co-operative Societies to provide honses for the Middle classes, had they given Government aid in the shape of loans at low rates of interest and taxed increased land values on rates, or or increased rents, or stamps on speculative transaction, the scheme might have been far more economical to the Government and much more acceptable to the public. As it is the scandals likely to result from an almost uncontrolled expenditure of twelve or fifteen crores by a single department vested with extraordinary powers, are engaging public attention in the columns of the daily press though the Department is still in its Infancy. One shudders to think what it will be like when the Department has accomplished the task for which it has been created.

is desirable for the provinces, it is in our opinion still more desirable for the Imperial Government, which is to be responsible for the national credit of India in the future and the national debt of India of the past; which is charged with national defence and entrusted with the task of national improvement in such important direction as transport, currency, communications &c. which will be the mouthpiece of India in the council of the empire, in the court of the League of Nations.

The system of contributions is bad, but we are by no means convinced that it is indispensable. Assuming that all the changes in revenue and Expenditure heads were carried out as proposed by the Reforms, the following tables would represent, in round terms, the Imperial and Provincial Revenues and expenditure on the basis of the figures of 1919-20.

	Imperial Revenues. Heads of Revenue.	Rs. Amount.	Imperial Expenditure. Heads of Expenditure.	Rs. Amount.
1.	Opium	5,00,00,000	Revenue Collection ..	5,00,00,000
2.	Salt	6,00,00,000	Refunds	1,50,00,000
3.	Customs	20,00,00,000	Interest & Sink fund .	12,00,00,000
4.	Inc. Tex	20,00,00,000	Post & Tel.	6,75,00,000
5.	Stamps	4,50,00,000	Mint	50,00,000
6.	Post Office	8,50,00,000	Misc. Civ. Charges ..	4,75,00,000
7.	Mint	1,00,00,000	Railway Inter. &c. ..	22,00,00,000
8.	Misc. Civ. Rec. ..	3,50,00,000	Army	35,00,00,000
9.	State Rlys.	32,00,00,000	Civ. Adm. Charges of the Govt. of India.	12,50,00,000
10.	Mil. Rec.	1,50,00,000		
11.	Interest	5,00,00,000		
12.	Tributes	1,00,00,000		
	Total	1,11,00,00,000	Total	1,00,00,00,000

These figures show no ground for apprehension. We have, it is true, taken the Income Tax Receipts as inclusive of the Excess Profits Tax, and taken the Army charges at the pre-war basis. If we deduct Rs. 5 crores from the Revenue side, and add Rs. 10 crore on the side of the Expenditure there would be a deficit, in round terms, of abouts 5 crores. If we add to that the necessary capital expenditure of say on an average Rs. 10 crores a year, the deficit may increase to Rs. 15 crores a year. Admitting for the sake of argument only, that there is no room for retrenchment in the army expenditure, we could still suggest a number of taxes—fit to be levied by the Imperial Government only—which could more than meet the deficit A Tobacco monopoly, coupled with the necessary changes in customs duties, and a tax on agricultural incomes and those of religious bodies will more than make up the deficit. A tax on the privilege to carry Arms may be kept in Reserve, though perhaps it would be more suitable to the Provin-

cial Government. The development of the Post Office and the Railways are other sources of the requisite extra revenues, which may be tried, along with the profits from a State Bank or Insurance Scheme, to meet this deficit, if it still remains uncovered. **There is, in fact no need for Provincial contributions.** *

The Provincial table of Revenues and Expenditure under the proposed scheme would be as follows :—

	Rs.		Rs.
Land Revenue ..	34,00,00,000	Revenue Collection & Refunds	10,00,00,000
Stamps	4,50,00,000	Civil Dept.	40,00,00,000
Excise	18,00,00,000	Mis. Civ. Ch.	4,50,00,000
Forests	5,00,00,000	Famine	1,50,00,000
Registration	1,00,00,000	Irrigation	6,00,00,000
Civ. Dept. Recpts. ..	3,00,00,000	Public Bldgs. ..	8,00,00,000
Misc. Civ. Recpts. ..	50,00,000		
Irrigation Rect. ..	8,25,00,000		70,00,00,000
Civil Buildings ..	50,00,000		
	74,75,00,000		

This represents the existing scale. Assuming that the Provinces spend about Rs. 15 crores more on civil departments by way of increased provision for education, sanitation, Agricultural development, scientific Departments and another Rs. 10 crores a year by way of capital outlay on Irrigation or Navigation works, purchase of agricultural indebtedness, improvements of ports &c. undertaking a great housing scheme and provision for increased interest charge, we would find a deficit on provincial account of Rs. 20 a crores year. If the Provincial Governments impose substantial Registration fees on Marriage, introduce a scheme of Succession Duties, develop their Forest wealth on a large scale, tax objects of luxuries like Motor cars by way License Duty, and charge a fee on the right to carry arms, any one or more of these will make up the deficit.

It must be noted that we have made no allowance for increased receipts from public property, like Forests, or land, or Irrigation and navigation works. Our suggestions of entirely independent finance would no doubt involve at first additional taxation. But additional taxation is not invariably an evil. If only we could be sure that the proceeds would be employed exclusively on purposes of national development, we should have no objection to suggesting a Budget of Rs. 225 to 250 crores on either side as, indeed, the foregoing suggestions would amount to. Emphasis on retrenchment is the child of distrust in the spending authority, matured on the spectacle of wasteful public expenditure. We do not deny the need for such emphasis in the conditions of modern finance; we would only wish that a due sense of proportion be observed in advocating one or the other of the two means to secure equilibrium in public finance.

* Says the Meston Committee Report para 29: It should be observed that, if the Government of India fulfill their announced intention of gradually wiping out their deficit, against any increase in the proportion on which a province will be called upon to contribute from year to year, there will be set off a reduction in the total to be contributed.

In this critique of the scheme of Provincial Finance—as outlined by the Reforms proposal—we have deliberately refrained from discussing the constitutional aspect. In the next chapter we have made a few brief remarks on some of the novel features of the proposals. Here we may draw attention to only one aspect which relates to the subject under discussion. The one thing that has emphasized the need for financial independence is the belief that, without it, provincial autonomy would be a farce, and Responsible Government impossible. **But the only real commencement of a truly responsible Government of India can be made when the Supreme Government is Indianised entirely.** So long as the Supreme Government is outside Indian control, it will tend to become a champion of class interests, a bulwark of absolutism. We who believe in an Indian nationality cannot advocate the abolition of the Central Government. But we cannot consider that we have made any real progress towards responsible democratic Government, so long as Indians do not control the Imperial Government of India. To us the demand for Provincial autonomy in the past was acceptable only as the first step for preparing the people in the task of self-government. We welcome it to-day as good device for political education and administrative apprenticeship which the Indian people need. But we cannot be blind to the fact that our provinces, as they are, have no principle of unity in them; that too great a prominence to the idea of provincial autonomy must logically lead to further dismemberment, which would be economically ruinous and politically suicidal. The system of Provincial finance outlined above has in it germs of intense provincial jealousies in the future. We would have none of it. It still leaves a very considerable measure of Indian revenues and expenditure beyond Indian control. We cannot consider it advantageus to India. Without thinking at all of any military rivalries with Japan or Russia, we must still have a strong Central Government to accomplish most economically the material regeneration of the country. If this reasoning is sound, we would have to undo much that now appears as a move in the right direction. And nowhere, we think, will that tendency assert itself earlier, or more unmistakably, than in the region of finance.

CHAPTER II.

CXIV. MACHINERY OF CONTROL AND AUDIT OF ACCOUNTS.

Financial organisation and control in the sense that it has been developed in England, is conspicuously absent in this country. Our Government has hitherto remained in form and in feeling an alien autocracy, which could not be made responsible to the wishes of the people without endangering the supremacy of the foreign element. The expenditure of Indian Revenues, therefore, does not obey the wishes of those who pay for the public service, because so far there was no organisation to form, express and enforce the real Indian opinion on the subject. At the time that the Government of the country was brought under the British Crown, it was felt that the disappearance of the Company's buffer-powerless as it had been in the past to prevent a misapplication of the Indian revenues—would leave the Indian tax payer entirely at the mercy of the absolute government established in the country; and so at that time precautions were adopted in the deed of transfer against any abuse of authority in matters financial to the prejudice of the Indian people. In Practice, however, these precautions, as is shown below have proved inadequate to prevent the evils they were meant to avoid, with the result that after sixty years of direct British rule, India still remains without any effective machinery for the control of its financial administrtion in the interests of her people.

CXV. THE CONTROL OF THE BRITISH PARLIAMENT.

Of the measures adopted for safe-guarding Indian interests, none was considered to be so strong as the supreme control of the British Parliament. In particular, it had been specifically provided that the revenues of India should not be employed, without the consent of Parliament, for aggressive purposes beyond the frontiers of India.* But during sixty years of its supreme power, Parliament has never been able to check the militarist tendencies of the Indian Government. If we would judge the mother of Parliaments charitably, we would say that on each occasion the outbreak of military operations has been so manoeuvered that Parliament was either led to believe that the use of Indian forces and Revenues outside the frontiers of India was necessary to prevent a threatened invasion of India, or, more cleverly still, that it was too late to interfere and, therefore, the best course

* Section 55 of the Government of India Act 1858 provided that "Except for preventing or repelling actual invasion of Her Majesty's Indian possessions, or under other sudden and urgent necessity, the revenues of India shall not, without the consent of both houses of Parliament, be applicable to defray the expenses of any military operation carried on beyond the external frontiers of such possessions by Her Majesty's forces charged upon such revenues." This section is practically reproduced in S. 22 of the Government of India Act 1915.

was to grant the required consent.* If we are inclined to be critical or censorious, we would say the British Parliament has never had sufficient leisure or intelligence to judge clearly of such distant issues as were involved in the Indian frontier policy; or, harder still, that the collective representatives of a nation of shopkeepers could never find it in their hearts to refuse a proffered help, or to allow themselves to be entangled in the struggles in which an alien dependency was ruining itself. Besides, the saving clause in the Act was specifically confined only to expenditure on military adventures. It had nothing to do with civil expenditure which may be manipulated freely by the Indian Government without the Parliament ever knowing anything about it. For one thing it had no opportunities of discussing Indian questions. † And even if a small clique of members could find time to raise a debate on Indian financial interests, the official representative of the Indian bureaucracy in Parliament could either silence the malcontents by a show of superior wisdom and interior knowledge, or, as more frequently happened, by setting of representatives of English interests against these hardy champions of India.‡

But even if these things were otherwise; if Parliament had reserved more opportunities of discussion, had more members competent to discuss, more time to spare, it is not at all certain that Indian Finance would be controlled in Indian interests§ The utmost that the British Parliament can do with advantage to India and credit to itself, is to see that in India Indian interests and Indian representatives get fair play in purely Indian questions while not sacrificing India to the wider issues of the Empire or world politics.

THE SECRETARY OF STATE FOR INDIA IN COUNCIL.

The responsible head of the Indian administration in England is the Secretary of State for India—a British Cabinet Minister. Theoretically, like the entire British Cabinet, he is responsible to the Parliament; and may be argued to control the public finance of India under the salutary dread of parliamentary criticism. In reality he has no such dread. Until very recently, his salary and the expenses of his Department were not borne by the English Exchequer, and could not, therefore, be criticised by Parliament. His Council, originally intended to be a conclave of experienced men in Indian affairs forming an independent, advisory council, has since 1869-74 come to depend more and more on the Secretary of State. They have no independent information, no means to bring to book a too absolutist Secretary of State. They are divided among them by the system of committees, and are working under the terror of the Secret Committee. The Secretary is a member of the British Cabinet, a leader of the House of Commons, a favourite,

* This is not the fate of India alone. The executive can force the hands of Parliament even in England since Foreign affairs are practically beyond the purview of Parliament. The Logic of accomplished facts is often irresistible, however erroneous it may be.

† Until the Montague Chelmsford Reforms the Expenditure of the India Office was defrayed out of the Indian revenues, and so Parliament could not raise discussion on Indian questions at any moment when the House would be full, and attention close. Since this year that great evil may be said to be over.

‡ Particularly in connection with the outlay on Railways as against that on Irrigation Works.

§ Indian opinion before the Welby Commission desired to obtain direct Parliamentary representation for India The present day opinion seems to have understood the futility of such a concession, even if it was accorded with reference to the special object in view.

possibly, of the British people. If he differs from the Council, he speaks with all the weight and authority of a Cabinet Minister, all the **aplomb** of the man who knows he has the ear of the public while his opponents have not. He can defend them before Parliament, and can have his policy vindicated by the ready votes of his party's majority. Under the circumstances the minister tends to be the absolute master—the only controlling power the adminstration of India.

CXVI. THE GOVERNMENT OF INDIA.

But the Secretary suffers from two great disadvantages. He has no personal knowledge of local Indian conditions, no contact with Indian opinion, no interest in Indian questions. His office is only a step in his career which does not depend necessarily upon the credit he gains in that office. He is moreover at such a distance from the country of whose destinies he is such an absolute master. The government on the spot has all the advantages which the Secretary of State lacks. They can confront him with the same inexorable logic of accomplished facts which frequently serves to involve the Parliament in a course of policy adopted without its previous concurrence. The political wisdom of not detracting from the authority of the local powers makes the responsible Minister often unwilling to interfere in Indian matters, even when his own judgment would not support a particular course. The *de facto* authority to control the Indian finance is, and must be, the Government of India. The complaints as regards the control of Indian Financial administration is not that the Government cannot control, but that it will not. As the head of the bureaucracy, it must support the bureaucracy. The Legislative Councils have no power to vote or veto the Budget, though since 1909 they have been given the right to discuss some of its items, and offer a few recommendations.* The Minister in charge of Indian Finance is a member of the Indian Government, and must necessarily suffer from all the disadvantages incidental to the constitution of that government. He has neither the power nor the sanctions that his prototype—the Chancellor of the Exchequer—can command in England†. The spending departments are not only independent of him; they have as much access to the head of the Government as he has, and can make him adopt their point of view, more easily than the Finance Minister can.‡ He cannot contend always with success, single handed, and without the support of the public opinion constitutionally expressed in the council behind him, against the combined pressure of the spending departments. He has, under the Indian system,

* The right to move Resolutions in the council on financial topics is shown of all its possibilities by the provision of a standing official majority in the Supreme council. No resolution can pass the council which the Government do not like. And even if it be passed, it is not incumbent upon the Government to give effect to the Resolution. The only value of the right lies in the opportunity it affords to express disapproval of a particular course adopted by the Government an expression of a pious wish on the part of the non-official public, and the moral pressure which such an expression of opinion might create.

† "In India the Revenue authorities are not concentrated in Calcutta as they are in London, and they are not subject to the Financial member as the English revenue authorities are subject to the Chancellor of the Exchequer. The Financial member, therefore, cannot command expert assistance at the head-quarters in the same degree as the Chancellor of the Exchequer." Welby Commission Report para 55.

‡ Said Sir A. Colvin in his evidence before the Welby Commission. "Since the events of 1885 and the establishment of the Russian power in Central Asia, the balance of influence between the Financial members. and other members of the council, more especially, I should say, the military members, has been radically disturbed by the very great preponderance being given to military considerations". By the decentralisation of Finance the Viceroy's influence was removed from internal questions to those of Foreign affairs and the Army.

no means of knowing in advance, much less of restricting, any proposed increase in the expenditure of a great department. He can, sometimes, carry his point by the support of the Secretary of State; but there is no means of direct communication between them, no regular system of appeal on disputed points.* The only items of expenditure he can economise in or used to be, the Provincial expenditure, which, however, meant a loss of the barest means of necessary improvement to the country.

The existing authorities are, therefore, all unable for a variety of reasons to exercise effective control over Indian revenues and Expenditure The only means to achieve such a control is to grant to the Legislative bodies in India a complete power of the Purse, as regards the revenues and expenditure subject to their jurisdiction.

CXVII. THE MONTAGU-CHELMSFORD REFORMERS AND THE INDIAN BUDGET.

The recent Constitutional Reforms have made no material change in this respect. Parliament still remains the sovereign authority for controlling financial as well as other aspects of the general policy for the Government of India; but there is no reason to believe that the institution of a select Committee or quinquennial commission† will enable Parliament to take any more real interest in Indian affairs than it has done in the past. ‡ The occasion will no doubt be provided for discussion of Indian affairs by transferring the salary of the Secretary of State to the British Estimates; but unless we can be sure that the members of Parliament would have more time to devote to such abstract questions, or more intimate knowledge, we shall continue to be sceptic as to the ability of the British Parliament effectively to control the expenditure of the revenues of India. **The real Government of India must be in India, and the control must also emanate from India.** While India is a member of the British Empire, the utter abolition of Parliamentary control is, of course, out of the question; but the admission of the necessity of Parliamentary sovereignty does not bind us to accept the will and power of Parliament effectively to control Indian finance in Indian interests. There is in fact a grave danger should parliament take, not a national, but a partisan view of Indian financial or fiscal questions. There is, therefore, a fundamental defect in the Reform proposals from the standpoint of

* A suggestion was once made by Sir A. Colvin to provide such a system but it would be injurious to the true interests of India by removing the controlling authority to London.

† " We recommend, therefore, that the House of Commons be asked to appoint a select committee on Indian affairs at the beginning of each session. Such a select committee would exercise its powers by'in forming itself from time to time upon Indian questions and by reporting to the House before the annual debate on Indian estimates. Like other select committees it would have no administrative functions. The Secretary of State would appear before it to answer questions about those aspects of Indian administration in which he, and therefore Parliament, continued to exercise the right to interfere...There would thus soon grow up a body of men in Parliament who took a continuous, and well imformed, interest in Indian questions; and by the committee's reports the House of Commons would be invited to focus their attention in the debate on the Budget on matters of importance which had arisen during the year" para 205.

‡ As between the Select Committee and quinquennial Commissions of Inquiry, the latter must necessarily be of secondary interest from the point of view of continuous attention in Indian questions. But the commission would resuscitate an old expedient under the Company's rule, the Parliamentary Commission of inquiry on Indian affairs. Judging from the goods these twenty yearly inquries are supposed to have done in financial matters, there is reason to hope that the new commissions may also prove fruitful in their own way.

financial control. They make the Government of India responsible to Parliament, not to the people of India, for the peace, order and good government. It may be a necessary stage in the political evolution of the Indian constitution; but while it lasts it will nevertheless be a mistake.

The Government of India are, therefore, the effective controlling authority in Indian Finance, and they are not responsible to the Indian people. It is true the Government of India are to have a Legislative Assembly of 100 members in which the official majority no longer will prevail. But in all essential matters the Government of India retain their absolute power. The Viceroy has the right as before to veto measures of the Legislative Assembly, and to pass his own measures by means of Ordinances. In exceptional cases an official majority can be called into being, if necessary, to carry out the wishes of the Government of India over the heads of a dissentient majority in the Legislative Assembly.* That these measures are in their nature extraordinary, and cannot be resorted to except on very rare occasions, does not detract from their being powerful weapons in the hands of the executive and evidences of distrust of the Indian element in the Government. Even in ordinary cases, the Viceroy can, under the Reformed constitution, pass a measure over the head of the Legislative Assembly by certifying that in his opinion it is necessary for the peace, order and good Government of the country. What applies to general legislation applies also to Budget procedure. The Indian Budget still remains the child of the executive Government, and cannot be voted upon by the Legislative assembly.† There is no doubt the power to move Resolutions on the Budget; and there is no longer the dread that the Resolutions will be defeated, as heretofore, by the votes of a standing official majority. But the Government are not bound to accept or give effect to these resolutions, which would thus be worthless from the standpoint of exercising effective control, whatever the moral value of such an expression of public opinion officially recorded may be.

It is thus only in the Regions of Provincial Finance that we can find, under the new Reforms, a degree of control accorded to the Indian representatives. The financial organisation in the Provinces is unavoidably complicated by the idea of Diarchy. The division of funds is necessary between the Reserved Subjects and the Transferred Subjects; the need for increased expenditure on Transferred

*"What we seek is some means for use on special occasions, of placing on the Statute book, after full publicity and discussion, permanent measures to which the majority of members in the Leglislative Assembly may be unwilling to assent. We seek deliberately, when the purpose justifies us, to depart from popular methods of legislation; and it is obvious that no device which conforms to those methods can possibly serve our purpose. For this purpose we have come to the conclusion that we should employ the method now familiar to Indian institutions of maintaining such a number of votes, upon which the Government can in all circumstances rely, as to ensure the passage of the legislation it requires. It is here alone, and only (as will be seen hereafter) for use in cases where it is obviously necessary, that we propose to perpetuate the official **bloc** (Para 276 of the Report. See also para 279).

† Fiscal Legislation will, of course, be subject to the procedure which we have recommended in respect of Government Bills. The Budget will be introduced in the Legislative Asembly. **but the assembly will not vote it.** Resolution upon Budget matters and upon all other questions whether moved in the assembly or in the Council of State will continue to be advisory in character. But since Resolutions will no longer be defeated in the Assembly by the vote of an official majority, they will, if carried stand on record as the considered opinion of a body which is at all events more representative than the Legislative Council which it displaced. That in itself will mean that the significance of Resolution will be enhanced; there will a heavier responsibility upon those who pass them because of their added weight: and the Government's responsibility for not taking action upon them will also be heavier" para 284 Ibid.

Subjects is equally potent ;* the importance of finding funds for either half of the Provincial Government is beyond question. At the same time all the laboured enunciation of the principles of Provincial autonomy would be futile if no degree of local legislative control were accorded. Hence the Report recommends; that the provincial Budget should be framed by the Executive Government as a whole, *i.e.* Ministers and Councillors acting together. The order in which the provincial funds are to be employed is: first the contribution towards the expenses of the Government of India; next the amount needed for the Reserved Subjects; finally, the money wanted for the Transferred subjects. By considering the Budget in the whole Government, ample opportunities will be afforded to Ministers to acquaint themselves with reasons requiring a proposed supply for the Reservs Subject, and to put in their dissent if need be. By leaving theTransferred Subjects, which would be constantly expanding, to be provided for the last, the deficit, if any, will appear to be incurred for a transferred Subject, and the taxation proposed accordingly by a Minister.† The Budget will next come before the Provincial council which may discuss it, and vote upon resolutions for the allotments. But **neither in this case nor in the case of the Government of India does the Legislature acquire power under the Reforms to vote upon and pass or reject the Budget.‡** The only difference that occurs in regard to provincial Budget procedure is that the Resolutions of the Council on Transferred Subjects would be binding upon the Government and must be given effect to.

The Report assumes that the entire revenues of a province will be brought into one provincial treasury, and from thence funds will be allocated to the respective services as provided in the Budget. In commenting upon this arrangement the Govenment of India observed. "But we must point out that even reasonable men will at times, in all good faith, differ vitally from other reasonable men, when it is a question of providing supply for work which the former are responsible for safeguarding and developing, while the latter are only concerned in getting a share of the money for other work."§ They pointed out the possibilities of a genuine difference of opinion on the following points :—

"(1) How, to what extent and by whom the balance at the credit of a province may be drawn upon;

(2) How money can be obtained either by taxation or by borrowing for the needs of a Reserved subject;

* "We now come to the crucial question of the Budget Procedure." It is more difficult than that of legislation because while legislation on a Reserved Subject may clearly not impinge on transferred subjects, money devoted to reserved objects of expenditure can with some sort of reason be always represented as being diverted from the transferred objects. There must therefore be means of securing that the executive council shall be able to find the money to keep the administration of the reserved subjects efficient, and there must also be means of securing that to the expanding cost of the transferred services a fair proportion of the total revenues is devoted." Para 255 Ibid.

† We may note that the Report avails itself of a convention of the British constitution in the interests of Economy, viz. that no money can be voted, nor taxation proposed by the Legislature except on the motion of a minister of the crown.

‡ "If the Legislative Council rejects or modifies the proposed allotment for reserved subjects the Governor should have power to insist on the whole or any part of the allotment originally provided, if for reasons to be stated he certifies its necessity in the terms which we have already suggested. **We are emphatically of opinion that the Governor in Council must be empowered to obtain the supply which he declares to be necessary for the discharge of his responsibilities"** para 256 of the Report. The right hand gives what the left hand will take away.

§Para 65 of the Reform Dispatch No. 1.

(3) How the liability for the interest and sinking fund charges of a loan can be laid upon the authority for whose purposes the loan was raised ; and

(4) How the proceeds of taxation are to be secured for purposes which renders the taxation necessary."

On all these questions they considered the system of a single fund for provincial demands would not work. Given the Diarchy, the Government of India considered the resources of each half should be kept apart, as no definite regulation made in advance could serve the object of avoiding conflict of opinion*. Besides it is *fundamentally false to leave room for the belief in the minds of either half* of the Provincial Government that the encroachments of the other deprives it of its legitimate field for expansion. Neither the popular nor the executive half should be in a position to refuse funds to the other. The Government of India also felt that the scheme offered no incentive to economy, or development of the resources whether under the Reserved or the Transferred Subjects, for " under the pooling system any improvement which either half of the Government can effect goes into hotchpot, and they get no direct advantages from it, possibly no advantage at all."† The Government of India propose their own solution–breaking up of the Provincial resources into two distinct sections. The credit balances, the Revenues, the Surplus and the Expenditure,, should, after a careful inquiry and necessary adjustments, be allocated exclusively to each half of the Government concerned in the matter..‡

For the two halves of the Government in the Provinces, with their distinct purposes, the Government of India still recommend a single Finance Department presided over by an officer to be the financial adviser of the Local Government.§ The functions of this new Finance Department have been thus defined : " It is in no sense an overriding power. It is not a body that either dictates or vetoes policy. It watches and advises on the financial provisions which give effect to Policy. It criticises proposals and can ask for further consideration. It points out defects in methods of assessment and collection ; it can demand justification of the new expenditure from the department which proposes it, it can challenge the necessity of spending so much money to secure a given object."¶ Of course, the powers of this new department must be identical as regards either half of the Government. In addition to this Finance Department acting as the watch dog of the public Purse, there would be the Legislative Council. Though the powers of the Councils are to be at the outset only those of scrutiny and recommendation, and not of a definite disallowance of expenditure, the Council, in the opinion of

*Para 69 of the Reform Dispatch No. 1.
Ibid.
‡Para 70 of the Reform Dispatch No. 1.
§The officer will be appointed by the Governor on the advice of his Ministers. To be effective this appointment should be definitely placed outside any possibility of popular favour or disfavour.
¶Para 74 of the First Dispatch of the Government of India on Reforms. The duties have been thus summarised in Para 75:

the Government of India, with their committees on public accounts, can perform very useful purpose in securing efficient control of the actual administration of finance.*

CXVIII. THE INDIAN AUDIT SYSTEM.

Constitutional provisions for the safe-guard of public expenditure are, in the nature of things, general principles indicating the course to be followed. The machinery to certify that the course has in fact been followed, that no departure has taken place from the approved course, or, that if it has, effective safeguards are immediately put into operation to correct the error and prevent its repetition, is to be found in a well devised Audit system. The Indian audit system is so obsessed with codes and formalism that it can scarcely be expected to satisfy the requirements that such a system should possess in democratic government. It works with a mechanical precision, which never challenges the wisdom or propriety of expenditure incurred under orders of apparently competent authority. The system is so vast we can hardly hope to reproduce here even its most salient features in the briefest form. † Luckily its obsoleteness has determined the Government of India to overhaul it to provide an entirely new system for the audit of public accounts under the new regime.

The main objection against the present audit system is that it is mixed up, with other functions, not at all connected with Auditing. The Auditor-General for instance, is also Comptroller of currency, though the two office have nothing in common. ‡ **The first reform, therefore, which would confine the audit system only to an examination of public accounts, must start with relieving the audit officers of their currency function.** The auditor who may be an independent dignified officer, free and competent to perform his functions

*" Before this committee we propose that all Reports from the Finance Department on excess of reappropriations exceeding a limit which will be prescribed.

† The following extract from the Welby Commission may, however, be appended to show its general features: " The chief auditor of the Indian Empire is the Comptroller and Auditor-General, a high officer of the Central Finance Department at Calcutta. The actual audit of expenditure, however, takes place not in Calcutta, but in the provinces where expenditure is incurred.......The officers in charge of the District Treasury chests send at the close of each month to the head quarters of the Province an account with vouchers of their receipts and issues during the months. (The whole of the Indian expenditure is paid through the District Treasuries). Thus the whole of the public expenditure of the province comes before the audit officer at the head quarters of the province.....The accountant general audits in detail all the issues for civil administration whether central or provincial. Immediately after the close of the month, officers charged with civil expenditure send their accounts for the month with vouchers to the head quarters of the province. The Accountant-General then begins his audit. His officers are guided and bound in their work by minute and exhaustive code of regulations, and they disallow items which are insufficiently vouched, which are not covered by proper authority, or are otherwise not in accordance with Act or regulation. The disbursing officer has, of course, opportunity for explanation and the Accountant-General accepts or rejects the explanation. If the Accountant-General rejects the explanaton, he orders recovery of the money wrongfully disbursed, and the Treasury Officer is bound to enforce the recovery. If however, the person from whom the recovery is to be made appeals to the Local Government and that Government supports him recovery may be suspended pending reference to the Government of India. All objections which are raised by the auditing officers are entered in a book and the Accountant-General is specially enjoined to give attention to this book, which he formally reviews once a quarter. Any objection as to which the Accountant-General entertains doubt is referred to the Comptroller and Auditor-General......The book of objections is open to the inspection of the officers whom the Comptroller and Auditor-General sends to perform the test audit.......Each account is audited by the middle of the month succeeding that to which the expenditure belongs, and the audited accounts are then submitted to the Comproller and Auditor-General by the Accountant-General, who, if he thinks fit attaches his own comments..........

The audited accounts reach Calcutta towards the close of the month following that to which the expenditure relates.......He (the Comptroller and Auditor-General) consolidates these various accounts into one general account for all India, which he lays befoie the Financial member of the Counci in six weeks or two months after the expiry of the month to which the expenditure belongs." Para 72, majority Report Welby Commission.

There is a similar audit system for the Army and Public Works Department.

‡ " The explanation ot this anomalous combination of functions is probably to be found in this that when the Government of India took over the function ot note issue from the Presidency Banks, and s et apart a certain reserve against the notes to be invested in Government Securities, the necessary work of accounting suggested the Comptroller and Auditor-General to be the best officer to look after the whole currency system.

would be secured by making that department entirely outside the ordinary machinery of Government, his salary somewhat in the nature of a Consolidated Fund Service in England, his appointment to hold good during good behaviour.* The audit officers, moreover, will not be performing the higher functions which might be expected of them in the early years of popular government in India, unless they are able and authorised to rely more on their judgment and discretion rather than on the mere mechanical work of going through the accounts item by item. The auditor's real work would lie not in examining rules and precedents, but in scrutinising the authority as well as the necessity for a given item of expenditure.† If the entire audit system is revised on these principles, the Government of India expect its operation in practice somewhat as follows :—"Each audit report which deals with provincial subjects will be submitted to the Governor for communication to the executive authority concerned, whether member of executive council or minister. Copies will go simultaneously to the Finance Department of the Province, which will take orders up on the Report. In the case of reserved subjects the Governor in Council will dispose of the report,and will have power to condone surcharges and disallowances, except where they relate to definite infringement of orders from the Secretary of State or the Government of India. In the case of Transferred subjects, ministers will have an exactly corresponding position. But in each case the Finance Department will place the report and the orders upon it before the Committee on public accounts. Where orders from the Government of India or the Secretary of State have been infringed, it will refer the matter to those authorities through the Auditor-General. Otherwise the Committee on public accounts will have the right to examine all audit objections and executive orders passed upon them, and to make recommendations to the Legislature. It will then be for the Legislative Council to decide whether to move resolutions in regard to any matter which in their judgment requires more discussion or publicity. * * * * * In this sketch of procedure there is nothing that derogates from the right of a provincial audit officer to bring financial irregularities to the notice of his local government, or of the Auditor-General to bring to the notice of the Secretary of State any matter in which he considers that the action of a local government has been perverse or contrary to public interest." ‡

The only fault that we have to find with this outline of the constitutional aspect of public audit is the wide latitude of powers it leaves to the Governor in Council as regards reserved subjects Expenditure. A full control of public expenditure requires that it should be equally subject to a review in all its items by representatives of the people, as for example the committee on Public Accounts. Otherwise the system promises well.

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* The Government of India propose in their First Despatch on the Reforms that the Auditor-General be given a Statutory position of independence, and that his staff be similarly protected. See para 77.

† "The audit will not only see whether there is quoted authority for expenditure, but will also investigate the necessity for it. It will ask whether individual items were in furtherance of the scheme for which the Budget provided; whether the same result could have been otherwise obtained with greater economy whether the rate and scale of expenditure were justified under the circumstances; in fact, they will ask every question that might be expected from an intelligent tax-payer bent on getting the best value for his money" Ibid.

‡ Para 78 of the First Despatch.

PART VII.

CURRENCY AND EXCHANGE.

CXIX. INTRODUCTION.

I have already discussed the evolution of the Indian Currency system from the days of the Company down to the end of 1916 in my work on "Indian Currency and Banking Problems" published in 1917*. The origin and working of the present system based on the Gold Exchange Standard have been there explained and criticised. I shall, therefore, here confine myself only to a discussion of the effects of the War upon the Indian Currency, and the problems that have arisen in consequence†.

When the last Royal Commission on Indian Currency and Finance wrote :—

> "Our view is that India neither demands nor requires gold coins to any considerable extent for purposes of circulation (as opposed to saving or hoarding) that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should as opportunity may offer encourage notes while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations,"

none of the members of that body envisaged or contemplated a situation at all similar to the one that has developed as the result of the influences at work during the war period. For sixteen years after the value of the rupee had been fixed at an arbitrary figure, 1s. 4d., it was so maintained; and facilities were offered for the conversion of the rupee for purposes of settling India's international obligations or dues within points ascertained to represent the cost of transport of bullion to and from India. In the first days of the war the situation was so far similar to that contemplated by the Chamberlain Commission that the Government, acting in the spirit of the Commission's recommendations, had to afford a guarantee for the maintenance of the exchange value of the rupee in terms of the international medium of payment: Gold. For the first few months of the War the guarantee was practically utilised, and Reverse Councils to the total amount of £ 8.7 million were sold in India to be paid in England out of the Gold Standard Reserve. From and after the commencement of the financial year 1915-16, the situation began to alter perceptibly. The large outlay of the Government of India on behalf of the British Government, increasing every year in amount, more than balanced

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* "Indian Currency and Banking Problems" by M. L. Tannan and K. T. Shah. As the preface to the work declares, the section dealing with the currency system is exclusively my work, though the responsibility was taken by the authors jointly. The draft Act for the Reform of the Indian Currency system as given in the appendix is also the present writer's. (Publishers, Ramchandra Govind & Son, Bombay).

† Much of what follows is the substance of an article contributed by the present author to the Mysore Economic journal in October, 1919.

the obligations of the Government of India payable in England as Home Charges. The invisible imports of India averaging £20 million a year, were thus met by the recoveries of the Secretary of State from the British Exchequer, and one great factor in influencing Indian Exchange was temporarily reversed. ‡. On the other hand as the war continued trade began to be adjusted to the new conditions; the exports of the Indian produce began to increase in value if not in quantity, thanks to the urgent War demands of the Allies. On account of diversion of freight for military transport purposes, and later on, on account of its absolute scarcity, combined with the change in English industrial organisation for the production of munitions, the imports of foreign produce into India began to diminish.

Exports and Imports of Merchandise on Private Account.

Year.	Exports.	Imports.	Net Exports.
	£	£	£
1909-10..	125,253,000	70,040,000	47,213,000
1910-11..	139,921,300	86,236,000	53,685,300
1911-12..	151,896,100	92,383,200	59,512,900
1912-13..	164,364,800	107,343,900	57,020,900
1913-14..	165,919,200	122,165,300	43,753,900
Average for 5 years ..	149,470,900	97,233,700	52,237,200
1914-15..	121,061,100	91,952,600	29,108,500
1915-16..	131,586,800	87,560,200	44,026,600
1916-17..	160,591,200	99,748,000	60,843,200
1917-18..	161,700,000	100,280,000	61,420,000
1918-19..	169,230,000	112,690,100	50,540,000
Average for 5 years ..	148,833,000	98,446,100	50,387,700

A large balance thus arose in favour of India which was all the more significant because the old converse stream of payments from India in the shape of Home Charges had dwindled into nothing. The prevalence of high Income and Property Taxes in the United Kingdom had, moreover, induced the English merchants and capitalists in India to postpone the remittance of their profits to Eng land, and to re-invest them in industrial or other securities in India itself.

The mechanism of Exchange was thrown out of gear. The Councils, originally used to meet the Home Charges, were, according to the recommendations of the Chamberlain Commission, to be used to liquidate the trade balance if the resources of the Government permitted.* They were now used (since the Financial

‡ The amount of the recoverable expenditure incurred by the Government of India on behalf of the Imperial Government between 1914 and the present date has exceeded 240,000,000 and the expenditure of this nature has not yet ceased. Para 13 of Report.

* "It may be said that it was necessary for Government to supply up to the limit of their power the demand of trade for funds in India. We have already said that we do not favour the view thus implied. The interests of trade are, indeed, of high importance, but it is not the business of Government to favour trade at the expense of general revenue." (Report).

year 1915-16) almost wholly for purposes of trade balance. In the first year of the period (1915-16) Government maintained at the fixed rate of exchange an unlimited sale of Councils sufficient in fact to meet and liquidate the entire balance in favour of India. But the strain began to grow as each week a larger amount was demanded. The encashment of the Councils Bills at the treasurie of the Government in India, or at the Presidency Banks was to be made in rupees or notes, which could only come from reducing the Government balances, or increasing the invested portion of the Paper Currency Reserve and thereby freeing an equal amount of rupees for circulation.

CXX. WAR AND THE MECHANISM OF THE INDIAN CURRENCY SYSTEM.

Thus, then, the Government of India had, during the greater part of the war period, to face an entirely new situation. In spite of heavy, almost lavish investments in the English war securities by the Government of India, the balance in favour of India could not all be destroyed. The gold, which in years immediately preceding the war, was becoming more and more acceptable to India for settling the trade balance due to her, was, under war conditions, impossible to obtain, belligerents and neutrals guarding and adding to their Gold Reserves with an uncanny jealousy.* The only alternatives open to the Government of India were: to coin new rupees,† to add to the note of circulation,‡ and, when both these were used to the utmost limits or prudence or good faith, to raise the exchange value

*	Gold coin and bullion.	Silver coin and bullion	Total.
	£	£	£
1909-10	14446,000	6,242,000	20,688,000
1910-11	15,986,000	5,714,000	21,700,000
1911-12	25,178,000	3,828,000	28,706,000
1912-13	25,052,000	4,383,000	29,435,000
1913-14	15,550,000	4,163,000	19,713,000
Total	96,212,000	24,030,000	120,242,000
1914-15	5,637,000	6,676,000	12,313,000
1915-16	3,267,000	3,717,000	6,984,000
1916-17	2,797,000	1,440,000	1,357,000
1917-18	14,306,000	971,000	15,277,000
1918-19	15,000	38,000	53,000
Total	26,022,000	9,962,000	25,984,000

†	In open market. (Standard ounces).	From United States Dollar Reserve (equivalent in Standard ounces).
1915-16	8,636,000	
1916-17	124,535,000	
1917-18	70,923,000	
1918-19	106,410,000	152,518,000
1919-20 (to 30th Nov. 1919.)	14,108,000	60,875,000
Total	324,612,000	213,393,000

The table shows the amount of Silver purchased by the Secretary of State in the last five years. The total amount is thus 538,005,000 Standard ounces.

LAKHS OF RUPEES.

‡ Date.		Gross Note. Circulation.	Reserve. Silver.	Gold.	Securities.	Total.	Percentage of total metallic Reserve to Gross Note circulation.
31st March	1914	66.12	20.53	31.59	14.00	66.12	78.9
,,	1915	61.63	32.34	15.29	14.00	61.63	77.3
,,	1916	67.73	23.37	24.16	20.00	67.73	70.5
,,	1917	86.38	19.22	18.67	48.49	86.38	43.9
,,	1918	153.46	37.39	17.49	98.15	153.46	35.8
,,	1919	98.79	10.79	27.52	62.48	99.79	38.4
30th Nov.	1919	179.67	47.44	32.70	99.53	179.67	44.6

of the rupee.* Between April, 1915 and the end of the last financial year, 1918-19, according to the Finance Minister, nearly 120 crores of new rupees were put into circulation. The note circulation which was about Rs. 68 crores on 31st March 1914, was according to the latest figures available over 166 crores.

In spite of the concurrent application of all these remedies the situation has by no means improved. The Committee recently appointed to consider the whole question and to advise upon it, indicates the gravity of the situation, at the same time that it affords an opportunity fundamentally to reconsider the entire Currency organisation of India. The subjoined table gives in a concise form all the important factors of the situation as they prevailed in the War years; and judging from recent events, it does not seem that they have altered in any appreciable degree as yet :—

The figures are in crores of rupees except in the last two columns.

Year		Exports	Imports	Excess	Councils.	Home Charges	Gold Import	Silver Import	Recoverable Expenditure	Rs. coined
1909-10	..	187·96	122·65	65·31	40·54	29·68	21·67	9·44		2,17,56,166
10-11	..	209·96	133·70	76·25	40·02	29·37	23·98	8·63		2,19,25,112
11-12	..	227·99	144·45	83·93	40·83	28·93	37·76	5·33		2,80,74,320
12-13	..	246·21	166·63	79·58	38·50	30·42	34·00	17·20	In million sterling	19,53,69,94‡
13-14	..	249·00	191·30	57·70	46·59	30·46	23·32	13·03		13,15,68,537
14-15	..	182·17	144·93	37·24	11·68	30·31	7·64	8·87		2,17,95,336
15-16	..	199·48	138·17	61·31	30·36	30·16	—1·10	4·83	18·6	1,62,02,109
16-17	..	243·04	160·23	82·81	49·04	31·72	13·23	13·80	38·5	30,77,07,327
17-18	..	244·89	164·35	80·53	51·28	39·10	25·17	19·04	65·00	23,15,69,657
†18-19	..	255·27	188·56	66·71	31·35	..	..	..	76·0	....

By a comparison of the figures already quoted, it will be seen that :—

(a) While in the quinquennial before the war the net excess of exports of merchandise on private account amounted to Rs. 362-79 crores, during the war quinquennial the excess on the same account was Rs. 328-62 crores; if we include the transactions of the Government the net excess in the former period was 391 crores, and in the latter 381 crores.

(b) The net imports of Gold on private account during the first period was was Rs. 144 crores and of Silver Rs. 36 crores or a total import of precious metals of Rs. 180 crores. Against these in the following five years the total imports of precious metals were Rs. 55 crores. The gold import almost entirely fell off, the total for the period being

* Date of Introduction.		Minimum rate for immediate Telegraphic Transfers	
3rd January 1917	.. ..	1	4¼
28th August 1917	.. ..	1	5
12th April 1918	.. ..	1	6
13th May 1919	.. ..	1	8
12th August 1919	.. ..	1	10
15th September 1919	.. ..	2	0
22nd November 1919	.. ..	2	2
12th December 1919	.. ..	2	4

† These figures are from the April issues of the "Capital" the others from the statistics of the Government of India.

Rs. 39 crores, of which 18 crores were acquired by the Government, leaving only 21 crores for private absorption. Hence the demand for Silver, hence the heavy purchase of silver by the Government of India, the rise in the price of silver, and, finally the rise in the rate of exchange.

(c) The recoverable expenditure of over £240 more than set off the Home charges amounting to about £100 million and facilitated considerable investments in British securities.

CXXI. THE REMEDIES SO FAR TRIED BY THE GOVERNMENT OF INDIA.

We have deliberately left out in this brief review of measures adopted by the Government of India those restrictions on trade finance which were tolerated only on the excuse of the supreme necessity of finishing the fight successfully. They were, besides, in their nature nothing but palliatives which may lull the patient to sleep but cannot cure him of his malady. Thus War-time restrictions on financial facilities to exporters from India by requiring the banks to curtail their accommodation except to those dealing under Government License or those able to provide full cover, would, in normal times, have been resented by the Bankers, who could have easily rendered such restrictions ridiculous. And even in wartime the banks were bound by no law to respect those wishes of the Executive except for fear that on default they might be cut off from such share of the Council Bills as would otherwise fall to the lot of the complacent Banks. But though the Banks did, to some extent, carry out this policy of restricted finance, it is doubtful if it was really helpful in reducing the strain. Similarly, prohibition of certain classes of exports, though restricting trade in those articles, did not affect the excess in value of the exports over the imports, and consequently can scarcely be described as a successful expedient in saving the Exchange situation. The only remedy of this description, which may at all be said to have been successful, was the Gold Import Act.* The forcible acquisition by the Government of all imports of treasure on private account, coupled, later on, with restrictions on the export of rupees or silver bullion from India, deserved a better fate, and might have been more successful if it had been applied earlier. The object of these measures was to prevent speculative purchases of the precious metals; and by centralising their supply in the hands of the Government, to provide an abundant supply as far as the demand was a genuine trade demand. Unfortunately the measures were adopted at a time when the crisis had already become tensely acute. The influence of the speculative element was by no means confined to the Indian market. The world at large had agreed to a tacit conspiracy to withhold gold from India. The Government of India were known to be considerable purchasers of silver. There was, therefore, no reason why the shrewd Yankee should not make a profit as much from his silver resources, as from the other supplies he offered to the belligerents.

* 29th June 1917. The gold so obtained was kept in the Paper Currency Reserve as a backing against additional notes.

It is quite true that the Government of the United States of America since 1917 offered to co-operate with the Government of India in keeping the price of silver within bounds; but those bounds came to be fixed at a time when the price of silver had already broken its records for the last thirty years or more. Consequently in fixing the price the two Governments had necessarily to consider existing conditions, and not the conditions which obtained before the war. The American restrictions on the price of silver, moreover, were imposed only for the duration of the war; and, as soon as the war was definitely over, those restrictions were removed, with the result that we in India suffered from a most acute silver shortage in the first year of peace. Two rises in exchanges in 1919 came too closely on the heels of the removal of American restrictions not to raise a reasonable suspicion that the market had been kept in check by the co-operation of the American and Indian Governments, and that the moment that co-operation was withdrawn the actual situation had asserted itself.

Taking seriatim the three principal remedies of the Government of India, coining more rupees, adding to the note circulation, and raising exchange,—the first had definite limits put to it, not only by the scarcity of supply and the consequent rise in price of the material, but also by the undesirability of adding too much to the circulation.* In his interesting Report on the Rise in Prices in India, Mr. Dutta gives the following table showing the growth in the circulating medium and its effect in prices.

Growth in Currency Notes and Rupees in active circulation.

	Circulation crores.	Index No.
1884	115	88
1885	118	90
1886	117	90
1887	116	89
1888	118	90
1889	123	94
1890	120	92
1891	131	100
1892	141	108
1893	132	101
1894	129	99
1895	132	101
1896	127	97

* There is no longer any room for doubt that the result ant increase in the expense of living due to high prices of food grans, as also to other necessaries such as cloth, kerosine oil, and the hardships which this increase has entailed on the poorer classes and those on fixed incomes, have been a very important factor in promoting unrest and discontent. At the same time the cultivator, who would ordinarily be the first to profit by the high prices of produce, whether food grains or other raw material such as jute and cotton, has seen his profits disappear owing to the simultaneous rise in the price of other necessities. The wages of manual labour have no doubt been to some extent readjusted, and ultimately the wages of the clerical labour and other classes of employees will undergo a similar readjustment. But the process of adjustment, however, rapid, must invariably be a painful one, which no amount of administrative palliatives, such as control of distribution, can alleviate.

1897	125	[illegible]
1898	122	93
1899	131	100
1900	134	103
1901	130	115
1902	143	109
1903	147	113
1904	152	116
1905	164	126
1906	185	142
1907	190	145
1908	181	139
1909	198	152
1910	199	152
1911	209	160
1912	214	164†

He concludes however :—" This increase in the volume of metallic currency does not, however, appear to have been larger than what has been required by the growth of the business and other demands for currency. " But since his report there have been added to the circulation about 150 crores of rupees newly coined, of which 120 crores were estimated to have been minted during the war years, and about thirty crores fresh coinage during the three years before the war ; about 120 crores in round figures to notes in circulation ; and a certain amount of gold coins, about £40 million worth of sovereigns‡ in all. Against the estimated total circula-

Year.	Special index Number for Food grains (retail prices).	Special index Number for imported articles (Wholesale prices).	Special index Number for exported articles. (Mostly wholesale).	General index Number for articles covered by 2 & 3.
1910	100	100	100	100
1911	96	104	107	106
1912	112	107	114	112
1913	118	107	121	117
1914	122	105	126	120
1915	130	134	122	125
1916	120	217	128	151
1917	120	240	134	161
1918	161	265	157	184

The table exhibits the rise in Indian prices since 1912, the year 1920 being taken as the basic year for the preparation of the table. It may be noted that prices of imports increased by 265 % while those of exports only by 157 %.

‡ In the table appended Mr. Dutta has not included the number of sovereigns in circulation. We get the amount by the following table, compiled from the report of the Comptroller of Currency. We cannot get accurate statistics regarding the absorption of gold coins during the War years. But the figures given here, if totalled, would show a total gold absorption in the first fifteen years of the present century of close upon £ 70 million=Rs. 100/- crores at the old rate. It may be that for purposes of circulation the gold coins thus shown to have been absorbed into India may be left out of account, since there is no reason to believe they might be used for hoarding purposes. But it must be remembered that these are coins, as distinct from gold bullion imported in almost equal quantity during the same period and that, therefore, the probability is not quite so strong for believing that they constitute almost wholly the hoards.

Year.		Net addition of sovereigns in Public hands in million sterling.
1901-02 ..	£.	.967
1902-03 ..		2.198
1903-04 ..	3,278	2.937
1904-05 ..		3.732
1905-06 ..		5.156
1906-07 ..		7.427
1907-08 ..		3.443
1908-09 ..		2.866
1909-10 ..		8.091
1910-11 ..		
1911-12 ..		8.861
1912-13 ..		11.300
1913-14 ..		3.907
1914-15 ..		5.623

tion of 214 crores of rupees and notes, in 1912 as reported by Mr. Dutta, we shall be guilty of no overestimate if we put the total currency resources of India at the present moment at 550 crores in all, of which rupees would account for at least 300 crores, notes for another 166 crores, and gold coins £80 million.§

Mr. Dutta, in the table appended, found the rise in the index numbers of nearly the same proportion as the rise in the volume of circulation, varying from year to year also in very nearly a direct ratio. He nevertheless, as shown by the quotation, does not quite consider the increase in circulation as being responsible for the rise in prices, the increased circulation being, in his opinion, necessary for the expanding needs of the business. Even admitting his position, there is no reason *to* believe that corresponding to the increase in the circulating medium during the War years there has been a similar expansion in the volume of business. The total amount of foreign trade for example, as can be seen from the table given elsewhere, was not much greater in the War years than in the previous years And, if anything, the banking facilities during the war have been much increased, as shown by the opening of new banks, as well as the more extensive use of credit documents. Against the 585.82 crores worth of cheques in 1913-14, which was the largest pre-war number, there were 851.15 crores cheques cleared in 1917-18 in the four clearing Houses of Bombay, Calcutta, Karachi and Madras. The Capital and Reserves, the Public and private deposits, all tell the same tale of increase. We cannot but conclude that this increase in the medium of circulation has an undesirable effect on the price level.

The problem of financing the trade balance in favour of India, if dependence is placed exclusively on the coinage of new rupees, is bound to be unpleasantly complicated in the near future, and for some time to come. The world production of silver is falling off as shown by the figures below* at a time when the world's demand for silver is rising to previously unthinkable proportions. The Government of India have been the most-considerable buyers in the world market and if that demand continues there will be no hope of reducing the price of silver, assuming that it is capable of reduction. The Government of India are in the unfortunate position of tying up their own hands in advance, by tacitly promising to convert the local into the International currency and *vice versa*. It will be no

§ The estimates of existing circulation are based on the figures of notes and rupees said to have been coined or added during the period under review. It may be that now that the rupee is almost as valuable as coin or as metal there may have set in a greater tendency for melting and exporting it than was the case in the early years of the century. But the measures adopted by the Government rather incline us to hold that the tendency, if any, must have been checked almost at its inception, except for that portion of the export of rupees unknown to the public, for which the Government itself must be responsible in connection with the Mesopotamia campaign.

* Mine Production of Silver (in Fine Ounces, 000 omitted).

Year.		Canada.	U.S.A.	Mexico.	Rest of the world.	Total of world.
1910	..	32,869	57,509	71,372	57,249	219,089
1911	..	32,559	61,109	79,033	57,683	230,384
1912	..	31,956	66,041	74,640	60,423	233,060
1913	..	31,806	71,200	70,704	57,966	231,676
1914	..	28,449	69,634	27,547	50,418	176,048
1915	..	26,626	72,369	39,570	47,180	185,745
1916	..	25,460	78,875	22,838	48,283	175,456
1917	..	22,221	70,666	31,214	50,949	175,050

N. B.—The Statesman's year book gives slightly different figures

real solution of the problem to suggest the maintenance of the Exchange value by a reduction in the weight of the rupee.* Not only would it be a breach of faith. which might be tolerated if the emergency was so desperate; it would introduce the most unwelcome confusion in the credit relations of private parties as well as the Government. The experiment, if tried, must face a not unreasoning distrust of the public as well as the possible contingency on a much larger scale of melting operations. If we assume that there are at least 300 crores of rupees in circulation, of which one-half may be melted down by such a temptation, the Government would have to face a serious demand for rupees without improving their position in exchange very considerably. Their demand for silver, even to coin a debased one, would keep up the world prices against them. It is, indeed, possible that the supply may be added to by such melting. But as far as the Government are concerned, if there be any truth in the legend about the hoarding propensities of the Indian people, there would be no relaxation of the strain.

The alternative of adding to the paper money in circulation is no better. As it is, the amount of paper in circulation, judging from previous experience, is beyond all reasonable requirements, even allowing liberally for the increased popularity of notes on account of greater familiarity forced by the war. The increase is not brought about by the natural process of normal expansion of credit and the consequent supercession of cheaper for more costly forms of circulating media, but by the reckless additions in time and on account of the necessities of the War. As against the slightly more than 20 per cent. of the total currency issued against securities in the period immediately preceding the war, there is now nearly 70 per cent. of the total circulation issued against such securities. And the bulk of these securities held in England are beyond the control of the Government of India, and they show a tendency to depreciate.† The paper money, therefore, instead of offering a reliable, sound solution for the present problem, constitutes itself one of the gravest problems of Indian financial organisation. Further additions to its uncovered portion cannot be contemplated unless inconvertibility is accepted as an ordinary correction of unfavourable exchange.‡

The rise in the exchange was the last remedy open to the Government of India to meet the growing balance of trade in favour of India, or at least to curtail it to manageable proportions. The Government were, indeed, aware of the gravity of such a step as much as their critics, if we are to judge from the evident reluctance with which the responsible Finance Ministers resolved upon the step. It was in manifest opposition to the declared policy of the Government, if not in contravention of their solemn obligations, always to afford ready facilities for the conversion of rupees into gold and *vice versa* There can be no dispute that the rise in Exchange would hurt the prospects of the export trade. The attempt was, indeed, made at first to justify the measure as a war necessity. But it was

* See para 38 of the Report.
† In all over £130 million sterling in the two reserves combined.
‡ See para 41 of the Report condemning Invertible paper.

too painfully palpable that even when the war would be over there was no immediate prospect of restoring the old level of Exchange. It could be said, with some justification during the war, that the rise in Exchange was not really materially a hardship to the Indian exporter as his goods would be demanded no matter what the prices.* There was no effective competition; and the demand was almost unlimited so long as the supplier was willing to accept promises to pay in exchange for goods supplied. But now that the war is over, now that the trade restrictions against the erst while enemy countries have been removed, or are in process of removal; now that those countries, stirred on by the double incentive and defeat and indemnity, are likely to engage and be encouraged in the trade of the world with all the intensity that five years' exclusion from the world markets could lend, all the advantage that a low exchange could afford, all the facilities that accumulated stocks of easily marketable commodities can supply; there is every reason to apprehend now that the trade of India would be most gravely prejudiced by these continued rises in Exchange.

There is an excuse for the Government of India in that the high exchange supplies them with abundant funds cheaply in England, enabling them to pay off their Home Charges at a much reduced cost in rupees.† This is an argument entitled to respect from every financier interested in the stability of the finances of the Government of India. But before the argument can claim to be unanswerable, it must be observed that the saving to the Government, even if admitted, is not necessarily a saving to the community. Unless the money thus saved is returned in one form or another to the community either by remission of taxation or by undertaking works of material benefit, there would be no occasion to plead this saving to the Government as a reason to excuse the rise in Exchange. If we are to judge from the last Budget—the first Peace Budget of the Government of India,—there seems no immediate prospect of either remission of taxation or undertaking of projects of moral or material welfare of the country in the near future. It may be that the war had ended but too recently when the last Budget was presented to allow us to judge from it of the course of future financial policy; though it will be indisputable that for the next generation or so the effects of the war will be felt very severely in finance. Even admitting the saving to the Government, it must be remembered that while on an average the Home Charges amount to £20 million, on which the saving at £1=Rs. 10, would be Rs. 10 crores, the loss to the trade, on a total export trade of £200 million would be Rs. 100 crores. The saving to the Government would have to be very considerable, or would have to be most beneficially laid out, if it is to be regarded as an effective counterpoise for this loss. Finally, the argument from Government interest in the matter should not be pressed too much. If the Constitutional Reforms promised during the war are accomplished in times of peace in the spirit in which they were promised, the influence

* Nevertheless see the Index numbers previously quoted.

† See para 53. Home charges would save Rs. 12.5 crores a year. Re-valuation of English securities cost India at 2s.=1 rupee, 38.5 crores.

of the Home Charges ought to be a steadily diminishing factor. If the important posts in the Civil and Military administration of the Government of India are held in increasing proportions by the children of the soil; if the greater portion of the public debt of India is held by Indians in this country; if the expansion of Indian industries supplies all the civil and military stores wanted by the Government of India, the chief items of the Home Charges would begin to be unimportant,—at any rate they would not be sufficient to set off such a considerable loss to the producer as to make that factor entirely disregarded.*

The rise in Exchange, we may take it then, entails a loss on the Indian producer without a corresponding benefit to the Government. In the near future the argument now frequently heard, that the rise in prices far greater than the adverse exchange would make the exporter's interest automatically safeguarded, cannot be sustained. The world price level may, indeed, be maintained, for some time by Labour organisation or by State control. But if, as is probable, in the principal countries of Europe Labour consciousness succeeds in getting control of the industry, it would be more in harmony with the Labour programme to reduce the tax of producers than to maintain a high level of prices. The latter would be a burden on the consumer whose ranks are made of a very large proportion of the laboring population in every community. The device of reducing the output to maintain the prices is a Capitalist threat, which, the intelligent labour organisations of to-day will easily see, is inconsistent with the national or even the labour interests. And all that labour need in justice claim would be obtained by eliminating the private profiteer and his tax on labour or on the community in the shape of high prices. Government control of industry, if it does not restrain the selfish capitalist instinct, will fare poorly in the face of augmented consciousness of economic slavery of the rest of the community to the private industrialist. Besides, it would not quite be correct to assume that a high level of prices will be maintained for a considerable period after the war is over. The nations of the world who have been engaged in the struggle are all debtors enough to need to encourage by every means in their power exports. Germany, for one, if it is to pay the promised indemnity, must not only be not excluded from the trade of the world, but will find a large balance of exports as her only solution. The tales we hear of accumulated stocks of marketable commodities in Germany are enough to indicate the effect on the world price-level if dumping on a large scale takes place. In any case India is not yet so completely freed from the character and needs of a debtor country as to make its Government indifferent in the interests of the exporter.†

* Two out of the three provisions mentioned seem on the eve of being realised. The Stores Committee has recommended that preference be given to Indian material and manufactures in the purchases for India, and Government seem to have accepted the general principle of the suggestion. Unless the Government of India prove themselves guilty of much worse faith than their most malignant critics have ever suggested, there is every reason to hope that this source of drain will steadily diminish and eventually disappear. As for the second, the Indian Government could not, and therefore did not, borrow in England between 1914 and 1920. The 7 % Loan of 1921 raised in England has aroused the most embittered criticism, and seems to have been, if we read aright between the lines in Government communiques, forced upon the Government by the India Office. It is to be hoped that this free gift to Lombard Street at Indian expense will be the last of its kind.

† Since the above was written Trade Depression of an acute type has set in all over the world, and prices have at last commenced the downward curve. The explanation of the slump must be sought—not in political catch-words of antilabour propagandist—but in the exhausted purchasing power of the war-wasted regions. Those who need Indian exports are not able to pay for them. Schemes of International credit can only devise the means to pay; they cannot create the power to pay. Unless the world agrees to forget War-hates and agrees to co-operate for general material improvement, the prospect seems gloomy in the extreme.

The only remaining plea that we need glance at in passing is; s in exchange discourage exports, the Indian producer will find a compe greater development of the Home market. The war time activity development, the pronouncement of Government in favour of rap expansion, and the ease of getting capital makes people sanguine as to industry in India. But the process, to be accomplished so complete all the produce of India in the demands of India, must take time. If w from War-time phenomenon it may be said to have set in; and, if the of India adopt a change of front and heartily take up the policy of er and aid to Indian industries, there may be hopes of a brighter future pect. But even if the goal of industrial development is accomplishe industrial ambitions are realised, the net result would be a change in of exports. Instead of raw materials being the principal items of e would then be exported the monopolies of India or her manufa interests of the exporter will continue to demand public attention s principle of nationality is an accepted politico-economic axiom.

The only sound, permanent solution, then, that we can think of, a of all the factors bearing on the situation, is the adoption of the G and a Gold Currency. The root of the whole trouble was the refusal of cial world to let India have her share in the gold of the world during years. While the gold reserves of the oth have increased during the war to the extent nally noted amounts. India got less than her usual share. The Gold Exchange sta perfect in theory; but it must be admitted to tably broken down in practice. The Government of India canno ficial value for the standard local coin, promise to maintain it at that all contingencies, and then, at the first reverse in the bargain, try of the transaction altogether. We would not say that the breach of f in the recent putting up of the exchange was deliberate. But any it is disastrous. In gold using countries, moreover, the present pa has put up the price of gold beyond its legally fixed volume; and the g may well threaten the reduction of output if remunerative returns a But in India the price of Bar gold at Rs. 33½ per tola works out at R by no means prejudicial to the gold producer. * . If left free to sett balance in the customary manner, India would obtain sufficient gol stable exchange without the artificial meddling with that factor by the more frequently influenced by fiscal than by trade considerations. Go tion, moreover, would not only relieve the pressure on silver rupees; it the present ominous preponderance in the paper circulation, unsu

U. S. A.	£. M. 250.
Spain	70.
Netherlands	43.
Switzerland.	10.
Scandinavia.	40.

* This was written before the public sales of gold had brought down the price of gold a tola.

equivalent or even safe metallic Reserve. The apprehension is felt in some quarters that gold in circulation would be inaccessible in times of panic for the settlement of international obligations. Judging from the habits of the people, it may be predicted that a certain proportion of gold would be so absorbed as to be unavailable for Currency purposes, though it must be observed that the course pursued with respect to that metal, during a period when it was really a commodity and not a medium of exchange, legally established and commercially used, will not be a good indication for judging a similar tendency when it is made legal tender, standard money of the country. A large proportion, however, of the gold coin must remain in circulation and be accessible in times of international financial difficulties. If it is not so the reason would be the restricted use of bank paper. This is, indeed, the gravest of the defects of Indian currency and financial organisation the absence of up-to-date, flexible banking facilities. With a well developed system of banking, adopting metal saving devices like the Giro system of payments of the Reisch Bank of Germany, the fears of inaccessible hoards of gold will practically be groundless. And, if the note issue is handed over to such a Central State Bank as alone can claim and maintain the dominion of the Indian money market, the use of cheaper forms of currency will be very much encouraged. With a rupee of varying value, the paper based on it will always share in the distrust aroused by the variation in the value of the principal. The conversion of the notes in terms of the gold standard, and provision for immediate convertibility in gold will add to the popularity of the notes besides increasing their circulation. And, if in reorganisation of the Currency system, the expedients they have adopted in the United States federal Reserve Notes are introduced, we would have a reserve for notes which could with the greatest facility be converted into the form of commercial credit or Government credit as occasion may require ; at the same time that the principle of immediate convertibility and equivalent Reserve are fully maintained.†

It is of course true that the changes here advocated, the adoption of the Gold Standard, with Gold Currency, the reorganisation of the Note system and the reform of Banking in India, will take time. But the moment with the Indian Exchange Committee is investigating the whole system will not be badly chosen to suggest such fundamental reforms. The plea may indeed be urged that if adopted the reforms would become impossible owing to the sheer inability to obtain gold at present. The simple answer to that plea is that India has sufficient amount owing to her in gold (Rs. 82 crores in the Paper Currency Reserve and Rs. 35 crores in the Gold Standard Reserve) to justify the claim of these suggestions to be practical unless we assume tacitly the bankruptcy of out debtors. If it be found that the debtors must have time to return their loans, the course may be adopted of issuing bonds of a definite limited currency, specifically secured on the outstanding credits of India in the gold using countries, and thereon the currency reform may be undertaken in both its branches, metallic money and paper. Short of this

† In the appendix is given a scheme in the form of a draft Act consolidating the currency legislation of India, in which the radical changes suggested in the text have been all incorporated.

radical remedy, we fear all other tinkering with the system will only end in making the problem perennial, in upsetting trade and industry in India, in gravely prejudicing the interests of the Indian producer.

Since the above was written the Report of the Currency Committee has been published, and action taken thereon. The main recommendation of the commission is to revalue the rupee and give it a 2/- gold basis.* Owing, however, to the premium on gold as expressed by sterling price of silver and gold, the 2/- shilling gold basis is not the same thing as a 2/- sterling basis. The Government, however, have announced their intention to give effect to this recommendation by selling Reverse Councils at a rate in sterling approximately the recommended rate as calculatd on the basis of the Anglo-American Exchange. The heavy fall in that Exchange since the Report was written has stultified the recommendation; and yet the Government of India have offered to sell Bills on London at 2/11d. the rupee while the Anglo-American Exchange was below 3.40. This sudden rise in Exchange entirely dislocated the financing of Indian commerce. Though trade statistics show a clear balance in favour of India, unprecedented damands were made upon the Government for remittance abroad† There was more than a suspicion that the demand represented an outbreak of unjustifiable speculation encouraged by Government policy, the speculators, remitting at 3/- nearly and bringing back their funds at 2/- when it was possible. Instead of offering a minimum rate for the Reverse Councils below which they would not be allowed to go, Government offered a maximum upto which they were prepared to sell—a position quite inconsistent with the theory of the Gold Exchange Standard. The funds to meet the Reverse Councils are necessarily to be found from our Reserves in England, which had been built up when the pound was 15 Rupees but which are being dissipated when the pound is nearly 7 rupees Government have to confine their offer necessarily to a pre-determined figure £ 2,000,000 a-week, which is quite inadequate to the present demand; and hence also the complaints of discrimination. If the Government, after fixing a minimum below which they would not allow the rupee to fall, had kept themselves aloof from this business, it is possible that India's heavy balance of trade might have carried the rupee to over 3/- for a time; but if the process of deflation had started meanwhile in Europe, there is every reason to believe the Exchange would have gradually fallen till it reached the maximum prescribed by the

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* "We have now arrived at the following conclusions :—

(i) The objects should be to restore stability to the rupee and to re-establish the automatic working practicable (para 36.)

(ii) The stable relation to be established should be with gold and not with sterling. (para 57).

(iii) The gold equivalent of the rupee should be sufficiently high to give assurance, so far as is practicable, that the rupee while retaining its present weight and fineness. will remain a token coin, or in other words, that the bullion value of the silver it contains will not exceed its exchange value. (para 43).

After most careful consideration we are unanimous (with the exception of one of our members, who sings a separate report) in recommending that the stable relation to be established between the rupee and gold should be at the rate of ten rupees to one sovereign, or in other words; at the rate of one rupee to 11. 30016 grains of pine gold both for foreign exchange and for internal circulation. While some of our number would have preferred that the rate to be adopted should be nearer to that which has been in course for the last 20 years, we all recognise that no lower rate will attain the objects which we find to be indispensable."

† In a single week the tenders for Reverse Councils exceed £ 150 million, more than 6 years Home charges, more than 3 years' heaviest balance of trade in favour of India.

Government. For the present the whole Currency question remains a subject of violent agitation on the part of the Indian public, and general bungling on the part of the amateur financiers of India.*

It is more than a year since this chapter was written. The author still keeps to his main contention that the only true and effective remedy is to introduce a full, free, honest gold standard and gold currency, and place it—by Legislative sanction—beyond the tinkering of all amateur financiers The appendix to this work attempts to give effect in a concrete form to his main suggestions. The recent fall in exchange to below 1/4 d. (in April 1921) is the unavoidable result of the suicidal policy of our Government, which incidentally lost us 35 crores, and brought us no nearer to a fixity of Exchange than we were before the Reverse Councils were sold in 1920. The increasing depression asserting itself as an aftermath of war in all the principal countries of the world, revival of Indian foreign trade is impossible so long as the Indian public lacks confidence in the currency policy of India; and that confidence will not be restored until the measures suggested in the appendix more concretely are in one way or another given effect to.

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* In the work on Indian Currency of the present writer, the position of a gold Standard and gold currency for India has been adopted as the only sound one to give a permanent solution of our Currency questions. The Report of the latest Committee goes a long way to confirm that position. In the course of a private letter discussing the work above referred to, a learned professor of the London University, under whom I had the privilege to study, takes exception to this position, mainly on the ground that if India adopts a gold currency, the world would be kept out of its legitimate gold needs, while India would go on hoarding that gold. I think, this fear arises from a misapprehension of the Draft Currency Act proposed in the work in question. With notes expressed in, and based on, gold the paper currency would be far more popular than to day. With the banks adopting money saving devices like the *giro* system or the Postal cheque, the metallic currency would be economised much more than can be conceived to-day. With our Banks organised under a strong Central Bank, and working on the lines of the Federal Reserve system of the United States, there is no reason to fear that Gold in India would be unavailable for world needs when occasions should arise. We cannot deny that a certain amount of hoarding will go on in India whatever the currency system; but we feel,—we believe the tendency to hoard as much stronger when the system itself is suspected of being manipulated for the benefit of Extra Indian interests, than if there were no room to doubt the bona fides of the system. Gold is hoarded to-day because it is valued to be the one unchanging article of value; it will not be hoarded as much when it gets its proper place—a mere instrument of exchange. " These points will be more fully developed in the 2nd edition of the work referred to.

APPENDIX

Whereas it is expedient to consolidate and amend the law relating to Gold, Silver, Bronze and Nickel coinage current in the British Indian Empire; as also the Law relating to the Paper Currency and the Mint in the British India Empire; as also the Law governing the Standard of Currency and the Legal Tender Money and Token Coins in the said British Indian Empire, together with the Law relating to the Imperial Bank of India.

PRELIMINARY.

1. THIS ACT MAY BE CALLED THE INDIAN CURRENCY (CONSOLIDATING) ACT OF 1922.

It extends to the whole of the Indian Empire, inclusive of British Baluchistan Santhal Parganas, the Pargana of Spiti and, *all* the Native States in alliance with, and acknowledging the suzerainty of, the Government of India under the British Crown.

This Act shall come into effect from the first day of January of the Year One Thousand Nine Hundred and Twenty-Two A. D., except and unless as specially provided for in the body of this Act to the contrary.

2. This Act shall be deemed to be of the nature of a "**Constitutional Act,**" which shall not be capable of repeal or modification except by another act of the Legislature, passed by a majority of three-fourths of the members present, and provided that a notice of at least six months shall be given to insure a full discussion of the proposed change.

DEFINITIONS.

3. In this Act, unless there is anything repugnant to the subject or context,

(*a*) "STANDARD GOLD" or "STANDARD SILVER" means Gold or Silver eleven-twelths of which is pure metal and one-twelth alloy.

(*b*) "STANDARD WEIGHT" means the weight prescribed for any coin.

(*c*) "DEFACE" with its grammatical variations and cognate expressions includes clipping, filing, stamping or such other alteration of the surface of the coin, or of its shape as is readily distinguishable from the effects of reasonable wear.

(*d*) "MINT" includes the mints now existing and any others which may hereafter be established.

(*e*) "PRESCRIBED" includes prescribed by a rule made under this Act.

(*f*) "REMEDY" means variation from the standard weight and fineness prescribed by this Act for the various coins.

4. The Governor-General-in-Council may, by notification in the Gazette of India,

(*a*) establish a Mint at any place at which the mint does not for the time being exist, and authorise such Mints to issue coins mentioned in the Gazette of India instituting the Mint; and

(*b*) Abolish any Mint whether now existing or hereafter to be established.

STANDARD OF CURRENCY.

5. The Currency System in India shall be organised on the basis of the GOLD STANDARD.

6. The "STANDARD OF CURRENCY" shall be a Gold Mohor of the weight and fineness of the English Sovereign containing 123.27447 grains troy of gold eleven-twelfths fine, *i.e.*, containing 113.0016 grains troy of pure gold and 10.27287 grains troy of alloy.

7. These coins shall be coined freely at the Mint in India at the rate equal to £3 17s. 10½d. in Indian currency per oz. of gold.

8. The Mint shall not ordinarily take more than a fortnight for coining the gold tendered at the Mint for that purpose.

9. The Imperial Bank of India may, as hereinafter provided, receive Gold bullion and give in exchange gold coin or Currency Notes at the rate equal to £3 17s. 9d. in Indian currency for every ounce of gold.

10. Subject to the provisions of this Act in that behalf contained, the discretion of the Bank aforesaid in offering notes or gold coin in exchange for the bullion tendered for conversion shall be absolute.

11. The Mint in India shall not coin any other Gold coin except the Mohor as provided in this Act.

12. Gold coins minted at the Royal Mint, or at any of the branches of the Royal Mint in the British Empire, shall be legal tender in the Indian Empire, provided that they are Sovereigns or half-Sovereigns which are legal tender in the United Kingdom.

13. All other gold coins shall be receivable at the Mint, or by the Imperial Bank of India, as bullion, and shall be converted on demand by the aforesaid Bank at the rate mentioned above.

SILVER COINAGE.

14. The Mint shall coin, for issue under the authority of this Act, silver coins called the Rupee and the half rupee.

15. The Standard weight of the Rupee shall be one hundred and eighty grains Troy, and its Standard fineness shall be as follows: viz., eleven-twelths or one hundred and sixty-five grains of fine silver, and one-twelth or fifteen grains of alloy. The weight of the half rupee shall be 90 grains troy.

16. The Rupee shall be taken as equivalent to 1/15 of the Gold Mohor.

17. No other silver coins shall be coined at the mint under the authority of this act for purposes of circulation in the Indian Empire as currency.

18. The smaller silver coins, viz., the quarter rupee, and the one-eighth of a Rupee shall be **demonetised**. They shall be received at the Mint or at the Imperial Bank, after sufficient notice has been given of the coming into force of this Act, for exchange against full Rupees, or Currency Notes, to the full extent of their nominal value or gold within the Legal Tender limits as prescribed by this Act. The period prescribed for exchange of small silver coins may be extended by the Governor-General-in-Council on a Resolution of the Legislative Assembly, specially passed in that behalf.

LEGAL TENDER.

19. The Gold Coin, prescribed as Standard of Currency by this Act, shall be a full legal tender in payment or on account, provided that the coin

(*a*) has not lost in weight so as to be more than $\frac{1}{2}\%$ below the Standard weight, and

(*b*) has not been defaced.

20. The Silver Rupee and half Rupee shall be legal tender in payment or on account for sums **not exceeding one thousand rupees** at one time, provided that the coin

(*a*) has not lost in weight so as to be more than one per cent. below Standard weight, and

(*b*) has not been defaced.

The limit of legal tender of the silver coins may be progressively reduced at intervals of not more than a year by resolutions of the Legislative Assembly till the limit is reduced to one hundred rupees at one time.

21. The payment of Government taxes shall be made in **gold**, in respect of the Customs duties and the Income Tax, or in the notes of or drafts on the Imperial Bank. All other revenues of the Government may be paid in any form of legal tender money.

22. Notwithstanding anything contained in the next foregoing section, the Government may, by an order of the Governor-General-in-Council, direct the tax collecting officer to accept payment of government dues in the silver coin of the

Indian Empire irrespective of the legal Tender limit, except in the case of the Customs and Income Tax receipts, which shall be paid as directed by the preceding section.

OPEN MINT FOR GOLD.

23. The Mint in India shall coin gold into the Standard Coin free of charge to the public.

24. The Mint in India shall not be open to the public for the coinage of any but gold coins.

25. In the making of Gold and Silver coins a remedy shall be allowed of an amount not exceeding the following: namely,

Coin	remedy in weight	remedy in fineness
Mohor	five-thousands	two-thousands
Rupee	Five-thousands.	Two-thousands.

NICKEL COINS.

26. The following nickel coins shall be coined at the Mint for issue under the authority of this Act, viz., a Four-anna piece, a Two-anna piece, and a One-anna piece. No other nickel coins shall be coined at the Mint.

27. The Standard weight of the Four-anna piece shall be Seventy-five grains Troy, and of the Two-anna piece Sixty grains Troy. The Standard weight of the One-anna piece shall be fifty grains Troy.

28. In the making of the nickel coins a Remedy shall be allowed of an amount not exceeding one-fiftieth of the weight.

BRONZE COINS.

29. The following Bronze coins shall be coined at the Mint for issue under the authority of this Act, namely,

(*a*) A Pice or quarter anna,

(*b*) A half-pice or one-eighth of an anna,

(*c*) A pie or one-third of a Pice, and

(*d*) A double Pice or one-half of an anna.

30. The Standard weight of the pice shall be 75 grains Troy, and the other bronze coins shall be of proportional weight.

31. The Bronze coins shall be coined from a mixed metal consisting of copper, tin and zinc, in the proportions as now obtaining.

32. In the making of the Bronze coins a remedy shall be allowed not exceeding one-fortieth of the weight.

33. The Nickel coins, specified in section 26 of this Act, shall be legal tender in payment or on account as follows :—namely,

(*a*) The Four-Anna piece for a sum not exceeding five rupees.

(*b*) The Two-anna piece for a sum not exceeding two rupees.

(*c*) The One-anna piece for a sum not exceeding one rupee.

34. The bronze coins specified in section 29 of this Act shall be legal tender in payment or on account for a sum not exceeding one rupee at the rate of sixty-four Pice for the rupee or one hundred and ninety-two pies for the rupee.

DIMENSIONS AND DESIGN.

35. The Governor-General-in-Council may, by notification published in the Gazette of India, direct the coining and issue of all coins referred to in the several preceding sections, and determine the dimensions of and designs for these several coins; Provided that the dimensions and design of the Standard of Currency, viz. the gold Mohor, shall be the same as those accepted for the Mohor coined in India in 1917 and shall not be capable of alteration except by a resolution of the Legislative Assembly, passed by a three-fourths majority of the members present.

36. Until the Governor-General-in-Council otherwise determines by notification under section 35 of this Act, the dimensions and designs on the silver Rupee and half rupee shall be those prescribed for the Government Rupee under the Indian Coinage Act, 1870, and that the same shall be observed by the Mint at the time of the commencement of this Act.

37. For the other coins issued under the authority of this Act the Dimensions and Designs shall be those now in use for the similar coins issued under the Indian Coinage Act of 1870, provided that the dimensions, and designs on the new nickel coins shall be those now prescribed by law for those coins.

38. All Silver and Copper coins issued under the Acts XVII and XXI of 1835, XXI of 1838, XXII of 1844, XIII of 1862, and the Indian Coinage Act of 1870, and declared by those acts to be legal tender, shall continue to be legal tender in the manner prescribed by the several foregoing sections of this Act, provided that the Governor-General-in-Council may, by proclamation in the Gazette of

India, declare those coins to be no legal tender after a specified date, before which they may be received at the Mint, or at the Imperial Bank of India, to be exchanged for an equal number of the like new coins issued under the authority of this Act.

39. Subject to the provisions of this Act, no changes shall be made in the currency organisation established by and under the authority of this Act by any administrative action of the Governor-General-in-Council.

40. The Mint shall not be regarded ordinarily as an earning Department of the Government, but shall be conducted as an institution primarily meant for the public benefit.

41. The profits resulting from the coinage of Silver, Nickel and Bronze coins shall be applied in the following order, viz :

(*a*) To the upkeep of the Mint Establishment.

(*b*) To the purchase of bullion for inferior coinage, below the Standard of Currency.

(*c*) To a Reserve Fund. if the profits are in excess of the Mint Expenditure and the bullion purchases, provided that the Reserve Fund so constituted shall be used to support the Paper Currency in case of an unexpected, heavy demand for conversion.

42 (1) The Reserve Fund mentioned in clause (*c*) of Section 41 shall be kept in gold and shall be entrusted to the Imperial Bank of India for safe-custody on account of the Mint, provided that the said Bank shall have authority to use that Fund to meet a demand for the conversion of notes in the event of the ordinary resources at the disposal of the said Bank being insufficient for the purpose.

(2) The Bank shall pay interest at the rate of 5 per cent per annum for the use of the Fund for the purpose stated in this Act, and during the period that the Fund shall not have been replaced by the Bank.

DEFACEMENT OF COINS.

43. Where any gold or silver coin, which has been coined and is issued under the authority of this Act, is tendered to any person authorized by the Governor-General-in-Council or by the Local Government to act under this Act, and such person has reason to believe that the coin

(*a*) has been diminished in weight so as to be more than such percentage below the standard weight as may be prescribed as the limit of reasonable wear, or

(*b*) has been defaced

he shall, by himself or another cut or break the coin.

44. A person cutting or breaking a coin under the provisions of clause (a) of the next preceding section shall observe the following procedure, namely,

(*a*) If the coin has been diminished in weight so as to be more than such percentage below standard weight as may be prescribed as the limit of reasonable wear, but not more than such further percentage provided in this behalf, he shall either return the coin, or, if such person so requests, shall receive and pay for the coin at such rates as may be prescribed in this behalf; and

(*b*) If the coin has been diminished in weight so as to be more than such further percentage below standard weight so prescribed as aforesaid, he shall return the pieces to the person tendering the coin, who shall bear the loss caused by such cutting or breaking.

45. A person cutting or breaking a coin under the provisions of clause (b) of section 44 shall observe the following procedure, namely,

(*a*) If such person has reason to believe that the coin has been fraudulently defaced, he shall return the pieces to the person tendering the coin, who shall bear the loss caused by such cutting or breaking;

(*b*) If such person has not reason to believe that the coin has been fraudulently defaced, he shall receive and pay for the coin at its nominal value.

46. If a coin is liable to be cut or broken under the provisions of both clauses of section 43 of this Act, the person cutting or breaking the coin shall keep it,—

(*a*) If he has reason to believe that the coin has been fraudulently defaced under clause (a) of section 45, and

(*b*) In other cases under section 44 of this Act.

47. Where any gold or silver coin, purporting to be coined or issued under the authority of this Act, is tendered to any person authorised by the Governor-General-in-Council, or by a Local Government, to act under this Act, and such person has reason to believe that the coin is counterfeit, he shall, by himself or another, cut or break the coin, and may, at his discretion, either return the pieces to the tenderer who shall bear the loss caused by such cutting or breaking, or receive and pay for the coin according to the value of the bullion contained in it.

48. The Governor-General-in-Council may make rules to carry out the purposes and objects of this Act.

49. In particular, and without prejudice to the generality of the next preceding section, such rules may

(*a*) Reduce the amount of Remedy allowed, except in the case of the Standard of currency, by any of the preceding section in the case of the coins issued under this Act,

(*b*) Provide for the guidance of persons authorised to cut or break coins under ss. 43 to 46 of this Act,

(*c*) Determine the percentage of diminution in weight below standard weight, not being in any case less than two per cent. which shall be the limit of reasonable wear.

(*d*) Prescribe the further percentage referred to in (*a*) of section 44 and the rates at which payments shall be made in the case of coins falling under the same clause.

(2) Every such rule shall be published in the Gazette of India, and all such publication shall have effect as if enacted in this Act.

50. No suit or other proceeding shall lie against any person in respect of any thing done or intended to be done in good faith, under or in pursuance of the provisions of this Act.

PART II.

FIDUCIARY MONEY.

51. A Currency Note shall be a Note issued by the Imperial Bank of India under the Authority of this Act, and expressed in the form of a promise to pay on demand the sum specified in the Note to the bearer thereof.

52. Except as provided in this Act, no person or corporation in the Indian Empire, other than the Imperial Bank of India, shall draw, accept, make, or issue any bill of Exchange, Hundy, Promissory Note, or engagement for the payment of money payable to bearer on demand, or borrow, owe, or take up any sum or sums of money on the bills, hundies, or Notes payable to bearer on demand of any such person.

Provided that cheques or drafts payable to bearer on demand or otherwise may be drawn on bankers, shroffs, or agents by their customers or constituents in respect of deposits of money in the hands of those Bankers, Shroffs or Agents, and held by them at the credit and disposal of persons drawing such cheques or Drafts.

53. Any person contravening the provisions of the next preceding section, shall, on conviction by a Presidency Magistrate, or a Magistrate of the First Class, be punishable by a fine equal to the amount of the Bill, Hundi, Note, or Engagement in respect whereof the offence is committed.

DENOMINATION OF NOTES.

54. The Currency Notes shall be issued as under, namely in the denomination of Five Rupees, Ten Rupees, Twenty Rupees, Thirty Rupees or Two Mohors, Seventy-Five Rupees or Five Mohors, Ten Mohors, Twenty Mohors, Fifty Mohors, One Hundred Mohors and Five Hundred Mohors, in such numbers and at such times as may be determined by the Bank aforesaid, under a minute of its Board of Directors to that effect, or under an order of the Committee of Supervision.

CONVERTIBILITY.

55. The Currency Notes shall be payable, when presented to the Imperial Bank for that purpose, in Gold coins of the Indian Empire, provided that Notes of small denominations, namely, Five Rupees and Ten Rupees Notes,—may be paid in silver, the lawful silver money of the said Empire, and within the limits of legal tender as prescribed by this Act.

LEGAL TENDER

56. The Currency Notes shall be legal tender in payment or on Account in the same way as the Standard of Currency.

57. The Imperial Bank of India shall provide through its head office Currency Notes of the denominational values prescribed by this Act; and shall supply the Branch Offices, and the Agents subordinate to the Branch Offices, with such notes as they need for the purpose of this Act.

58. Every such Note shall bear upon it the name of the Town and of the Branch or Agent of the Imperial Bank through which it is issued.

59. Every such Note shall be worded so as to be a clear obligation of the said Imperial Bank of India, and shall be signed by the General Manager of the Imperial Bank of India, or any other officer of the said Bank specifically authorised under the constitution of the said Bank to sign on behalf of the said Bank such obligations of the said Bank. Such signature may be impressed on the Notes by machinery and when so impressed shall be deemed to be valid signature.

ISSUE OF NOTES.

60. The General Manager at the Head Office and the Branch Managers at the Branch Offices and the Agents in other places specially authorised in that behalf shall issue in the name and on behalf of the Imperial Bank of India Currency Notes of the denominational values prescribed by this Act in exchange for the amounts thereof in Gold coins issued under this Act, or Gold bullion at the rate prescribed by this Act in that behalf, or in rupees to the extent of not more than one thousand Rupees at one time.

APPOINTMENT AND STATUS OF OFFICERS OF THE BANK.

61. All officers of the Imperial Bank of India entrusted with special functions under the provision of this Act, and authorised to provide, sign, issue, or exchange

the Currency Notes, shall be appointed by the directors of the said Bank subject to the approval of the Governor-General-in-Council.

NOTES OF BRANCHES OR AGENCIES CLOSED.

62. When a Branch Office of the said Imperial Bank or an Agency for the purpose of Note issue has been closed, the General Manager of the said Bank shall, under the authority of a resolution of the Board of Directors specifically passed for the purpose, and approved by the Government of India, direct, by notification in the Gazette of India and such other local papers as may be circulating in the district in question, that with effect from the date of the closing of such Branch or Agency, all Currency Notes issued therefrom shall be deemed to have been issued from such other office as may be specified in such notification.

NOTES NOT LEGAL TENDER IN PAYMENTS BY THE BANK.

63. The Notes of the Imperial Bank of India shall not be deemed to be legal tender by the said Imperial Bank of India at its Head Office or any of the Branch Offices, but the Agents shall be exempted from the operation of this section unless the said Bank has specifically notified to the contrary, and unless the Agent has agreed to take upon himself on behalf of the Bank the liability imposed by this section.

RESERVE AGAINST THE PAPER CURRENCY.

64. The whole amount of the Currency Notes at any time in circulation shall not exceed the total amount represented by Gold coin and Bullion and the lawful silver coin of India and the sum expended in the purchase of securities which are held by the Imperial Bank of India at its Head Office and the various Branch Offices in India as well as by the Agents of the Bank for the purpose of meeting the Currency Notes as a Reserve to provide for the satisfaction and discharge of the said Notes. The said Notes shall be deemed to have been issued on the credit of the Imperial Bank of India as well as on the security of the said Gold coin and Bullion and silver coin and securities reserve.

65. For the purposes of the next foregoing section Currency Notes which have not been presented for payment within forty years of the date of their issue shall be deemed not to be in circulation; provided that all Notes declared under this section to be not in circulation shall nevertheless be deemed to have been issued on the credit of the Imperial Bank of India, and shall, if subsequently presented for payment, be paid from the reserve of the said Bank and be charged to the revenues of the said Bank.

TOTAL PAPER CURRENCY.

66. The total amount of the Notes at any time in circulation shall not exceed One Hundred and Fifty Crores of Rupees in value equivalent to one hundred million Mohors. But nevertheless the amount thus fixed by this section may be increased for a period specified under the authority of a resolution of the legislative assembly, or an order of the Governor-General-in-Council for a period not exceeding three months.

TEMPORARY INCREASE IN PAPER CIRCULATION.

67. In the event of the circulation of the total number of Notes of all denominations being temporarily increased in the manner provided for in the next preceding section, the Bank shall pay a tax of five per cent. per annum on the average excess of circulation during the period that the operation of this Act was in abeyance as regards the total amount of Notes allowed by S. 66 of this Act to be at any time in circulation.

RESERVE AGAINST TEMPORARY INCREASE.

68. The Imperial Bank of India may, during the period of temporary increase in the circulation of their Notes, hold the required reserve under this Act partly in Gold Bullion and coin and the lawful silver coin, partly in securities different from those prescribed by this Act. Provided that such other securities be Bankers' Acceptances, or good trade bills drawn against actual commercial transactions and secured by the goods or values forming the subject-matter of such transactions, and having at least two well-known signatures by way of indorsement, one of which shall be that of a Bank; and having not more than sixty days to run. The Imperial Bank of India shall not be permitted to regard as good bills or securities under this section any advances made by itself on personal security of its customer, or on the security of immovable property whether urban or agricultural, or the stock in trade or any other similar security. But nevertheless it may consider as good securities within the meaning of this section any advances by a Banker or Shroff, who is himself a client of the Imperial Bank of India, and re-discounted with the Bank aforesaid notwithstanding the fact that such banker or shroff has himself advanced to his client on any of the securities considered insufficient or ineligible for advances by the Imperial Bank of India under the provisions of this section and for the purpose of securing a temporary increase in the Note issue.

BULLION AND COIN IN RESERVE.

69. (1) The reserve prescribed by this Act and held by the Imperial Bank of India for the security of the total Note circulation shall consist in the manner provided below, namely, not less than seventy-five crores of Rupees, or half the total amount of the authorised circulation, shall be in Gold coin or Bullion and the lawful silver money of the country, and the other half or Seventy-Five Crores shall be in securities as prescribed in the following sections; provided that the amount of silver money held in the reserve under the authority of this Act shall not exceed **forty per cent.** of the total reserve held in specie, or such other amount as may be equal to the total value of Notes of denominations below two Mohurs as may at any time be in circulation, or whichever of the two is the smaller amount.

(2) If at any time the actual amount of Notes in circulation is below the authorised amount the reserve to be held in specie as provided by section 69 para one must be calculated in the proportion prescribed by the said para of this section and not fixed at Seventy-Five Crores of Rupees,

SECURITIES IN RESERVE.

70. The securities to be held in the reserve against the total amount of Notes in circulation under the provisions of the next preceding section shall be (1) the securities of the Government of India payable in the Indian Currency in India to the extent of not less than fifty per cent. of the total reserve held in the form of securities; provided that the loans issued by Local Governments, Municipalities, Port Trusts and such other Public Corporations working under the authority of the Government of India shall be regarded as and included in the securities described as the securities of the Government of India; (2) the remaining securities may consist of interest bearing bills, bonds, drafts issued by the Railway Companies, Tramway Companies, and other semi-Public Corporations, not connected with the Government of India, and bills of exchange, drafts, hundies, and other good commercial paper, having not more than six months to run, and arising out of genuine commercial transactions involving the import or export of goods, or the domestic shipment of goods with documents conveying or securing title attached, and bearing at least two well-known signatures one of which must be that of a recognised Banker or Shroff, who shall be himself a client of the Imperial Bank of India; provided that the commercial paper declared to be eligible as security against the Note issue of the Imperial Bank of India shall be taken in the books of the Bank at the actual purchase price and no more.

71. The securities of the Government of India held in reserve against the Notes in circulation shall be held at the head office of the Bank aforesaid. These and other securities may at any time be sold in open market or converted, or redeemed, or renewed, by the General Manager under the authority of a resolution of the board of directors specifically passed in that behalf, and the proceeds of the securities thus sold shall be employed as directed by the resolution aforesaid.

INTEREST ON SECURITIES.

72. The interest and other income accruing from the securities held as reserve against the Note-issue may be considered as the normal income of the Bank and be available for the purpose of declaring a dividend.

TAXES AND STAMP DUTIES.

73. The Bank shall be exempt from the payment of all stamp and other duties in respect of the Note issue in exchange for a lump sum payment of Rupees Fifteen Lakhs a year; provided that this exemption will not apply to the income tax or tax on the profits of the Bank, or any other tax by whatsoever name known which falls upon the recurring income of the Bank, but shall include the tax on immovable property owned or possessed by the Bank.

PERIODICAL STATEMENT OF ACCOUNTS.

74. An account showing the amount of interest or profit accruing on the securities held as part of the Reserve under this act and the expenses and charges incidental thereto shall be published annually by the General Manager of the Bank and be placed before the Legislative Assembly of the Indian Empire.

DEPRECIATION.

75. A depreciation fund of five per cent. of the total reserve held in the shape of securities shall be formed out of the total income from these securities and shall be set apart for the purpose of making good any loss to the reserve sustained by the depreciation of any security. No credit shall be allowed to be taken by the Bank for any appreciation of any security.

NOTES NOT TO BE HELD IN RESERVE.

76. Notes of the Imperial Bank of India in the hands of the head offices or any of the branch offices of the said Bank shall not be considered as lawful money for the purpose of the Reserve required to be held against the Notes in circulation under the provisions of this Act.

77. Every Branch Office and every Agent, with the exception of the chief Branch Office in a Province or in a Foreign Country, shall immediately return to the head office of the Bank aforesaid all Notes issued by the said Branch against eligible commercial paper and returned to the Branch on the maturity of the discounted paper and its payment by the parties concerned in lawful money. The Head Office shall either destroy the Notes so returned and against which there is no reserve or the portion of the reserve covering these Notes has automatically ceased to exist, or re-issue them against acceptable money or security. A margin of five per cent. of the total Notes issued to a Branch and circulated through that Branch may be allowed to be held by that Branch as till money for the Branch.

WEEKLY STATEMENTS.

78. An abstract of the accounts of the paper currency operations of the Imperial Bank shall be made and published in the Gazette of India four times a month showing :—

(1) The total amount of the currency Notes in circulation.

(2) The amount of coin and bullion reserve, distinguishing gold from silver, and coin from Bullion in the case of Gold, and showing separately any amount not actually in the hands of the Bank but in transit and considered as part of the reserve.

(3) The nominal value of the price paid for and the market price of the securities held as part of the reserve, showing separately securities of a commercial kind, and distinguishing between securities of this latter description held in India and those held outside India as also those held by the head office and those in the possession of the Branch Offices.

PLATES AND DIES.

79. Any one who possesses without lawful excuse the plate or dies from which the Notes of the Imperial Bank of India are printed or is found to be in possession of the stamp of the signature to be impressed on each

of the Notes issued by the Imperial Bank of India without lawful excuse, and is prosecuted before a Presidency Magistrate or a Magistrate of the first class for the offence of forging counterfeiting or uttering a forged or counterfeited note, knowing it to be so forged or counterfeited, or aids or abets any one in forging counterfeiting or uttering forged or counterfeited Notes. shall, on conviction be liable to a fine of not exceeding five Thousand Rupees for the first offense or imprisonment for not more than a term of two years with hard labour, or both at the option and discretion of the Magistrate trying the case. Any one found guilty of any of the offences detailed above more than once shall on conviction be liable to a sentence of transportation for life.

PART III.

IMPERIAL BANK OF INDIA.

80. The constitution of the Imperial Bank of India its direction and manage ment shall be provided by an Imperial Bank Charter Act to be specially passed by the Legislative Assembly in India in that behalf, subject to the following general principles namely:

(1) The Bank aforesaid if a private corporation whose capital is required to be subscribed to by private individuals shall allot fully paid shares to the state of not less than one-third of the total authorised capital of the Bank in exchange for the Bullion and coin reserve now held by the Government of India against the Notes now in circulation or such other securities of a like nominal value as may be prescribed by a resolution of the Legislative Assembly specially passed in that behalf.

(2) The Government of India shall be entitled in virtue of their proprietor ship in the Bank to nominate one-third of the directors of the Bank aforesaid either from among the officers of the finance department of the Government of India or the members of the Legislative Assembly and the Council of State or any other Non-Official persons or bodies at the discretion of the Government of India. And these directors appointed by the Government of India shall vote in accordance with their judgment or the directions of the Government of India specially issued to them on a particular question coming before the Bank directorate for discussion and disposal.

(3) The Finance Member of the Council of the Government of India shall be Ex-officio President of the Board of Directors as well as of such committees of the board as may be appointed from time to time to deal with the question of the increase of Note issue, purchase of Bullion, management of new loans of the Government of India, manipulation of the invested reserve against the paper Currency and all

such other questions directly affecting the public at large. In all such matters the president of the board or of the Committee shall have a casting vote in addition to the ordinary vote as a member, and shall have the right to postpone the decision by a minute of dissent pending the orders of the Government of India or a resolution of the Legislative Assembly on the point involved. In matters not directly affecting the public interest the president of the board shall have only a casting vote in the event of members being equally divided.

(4) All Officers of the Bank aforesaid in any way concerned with the maintenance or management of the Note issue and circulation shall be appointed by the directorate of the Bank subject to the sanction of the Government of India. Officers thus appointed shall have all the rights obligations privileges and duties of public servants in general and shall be subject to the Government Service Regulations.

FUNCTIONS OF THE BANK.

81. The functions of the Bank aforesaid shall include, subject to the Provisions of the Bank Charter Act, the following :—

Namely,

(1) To discount Indian Rupee trade bills maturing within the maximum period of six months subject to a minimum rate fixed from time to time by the Board of Directors of the Bank.

(2) To rediscount Good trade bills bearing the endorsement of another Bank or Shroff or one of the clients of the Imperial Bank itself subject to a minimum rate fixed for the purpose by the Director of the Bank from week to week.

(3) To make interest bearing loans subject to the condition of a minimum rate of interest prescribed from time to time by the Directors aforesaid on such security as may be permitted by the Bank Act.

(4) To buy and sell Gold and silver Bullion in India or outside India subject to the provisions of this Act and of the Bank Charter Act.

(5) To accept deposits on interest subject to a minimum day to day balance being maintained by the depositor and allow interest for the same at a rate prescribed by the directors aforesaid ; and to accept deposits without interest upto any amount liable to be withdrawn at not less than one week's notice or on demand as may have been specifically agreed upon between the Bank management and the depositor.

(6) To receive valuable goods for safe keeping with or without a charge as prescribed by the directors from time to time.

BRANCHES.

82. Subject to the provisions of the Bank Charter Act the Bank aforesaid shall open Branches as follows :—

(*a*) Wherever the necessity for the issue of Currency Notes requires a Branch, i.e., in every Town in India with a population of twenty thousand inhabitants or more, or in every Town which is the head quarters of district administration, or the capital of a province or Native State, or the junction of two Railway lines or more.

(*b*) In the chief European and other countries as laid down by the Directors.

(*c*) And shall have accredited Agents appointed under the authority of the Board of Directors of the Bank in every village which is the Head Quarters of a Sub-Divisional Office or the place with a separate Post Office and Telegraph Office of its own and is not included in any of the classes mentioned in clause (*a*) of this section.

83. The Branch Managers shall be appointed by the Directors of the Bank subject to the approval of the Government of India.

84. The Branches and Agents shall forward to the Head Office every day by Telegraph after business hours an abstract account of the balance in hand in coin or Bullion the amount of Notes held in hand or issued through the Branch and such other information as may relate to the Note system of the Imperial Bank.

85. There shall be established a branch of the Imperial Bank in London which shall be regarded as being the Head Office of all the Branches the Imperial Bank of India may deem fit to open in the various European countries for offering exchange facilities to the Indian Traders with those countries. Such foreign Branches shall be free to do the business ordinarily transacted by the Head Office and Branches of the Bank in India and subject to the provisions of this Act. In particular the London Branch shall transact the following business, namely :—

(*a*) Selling drafts on India either by way of rediscount from other Bankers or directly from the customers of the London Branch or from the public at large at a rate announced from time to time by the London Branch as the minimum rate for the purpose.

(*b*) The rediscount of sterling bills if necessary with the Bank of England.

(*c*) Receiving deposits from its customers in England at the current rate of interest for such deposits in England subject to such conditions of reserve as may be prescribed by the Board of Directors in India or the rules made under the provisions of the Charter Act or this Act.

(*d*) Borrowing for short periods from the Bank of England or other Joint-Stock Banks in England and lending money for short term on such securities as may have been prescribed by the Board of Directors subject to the provisions of this or the Charter Act.

(e) The floatation and management of sterling loans on behalf of the Government of India in the name of the Secretary of State for India in Council.

(f) The management of the balances of the Government of India in England in addition to such other business as buying and selling of Gold or Silver Bullion as may be prescribed for the Bank in India and may be specially ordered by the Directors to be carried out by the London Branch.

GOVERNANCE OF NON-INDIAN BRANCHES.

86. The London and all other Foreign Branches of the Bank aforesaid shall be governed under the provisions of this Act by a manager appointed by the Directors in India aided by a Council of three members selected from among the most important customers of the Foreign Branch or its officers including the Chief Accountant of the Branch, the Secretary if any, and the Head Cashier.

ECONOMY OF PRECIOUS METALS.

87. The Imperial Bank of India shall help to economise the use of metallic Currency in India by introducing all devices calculated to aid in the attainment of this end.

88. The Imperial Bank of India shall undertake to remit money free of charge for its customers between any two places in India whether or not the party to whom the money is remitted is a customer of the Bank at its Head Office or any one of the Branches or Agencies, provided always that the Bank shall be at liberty to prescribe any such conditions as to a minimum balance of deposits, &c., which may be deemed fit by the Board of Directors of the Bank. The said Bank shall also undertake to collect Government taxes, subscriptions for newspapers, premia for Insurance Companies and similar other payments due to its regular customers and recurring periodically, free of charge, subject to such conditions about a minimum balance, &c., as may be imposed by the Directors of the Bank.

89. The Bank aforesaid shall undertake remittance business between distant places in India on account of persons other than the regular customers of the Bank at a charge which shall be lower by fifty per cent. of the charge now made for similar business by the Post Office under the heading of money orders subject to such conditions as to the minimum sum remitted, &c., as may be prescribed by the Board of Directors in that behalf.

90. The Imperial Bank may require all its customers to domicile the bills receivable by them with the Bank and make all bills payable by them through the Agency of the Bank and impose such conditions as to the minimum balance in this behalf as may seem fit to the directors of the Bank.

ANNUAL REPORT OF THE BANK.

91. The Imperial Bank shall publish an Annual account of its operations giving details of the different kinds of Banking business allowed under the

provisions of this Act, or of the Bank Charter Act, together with a review of the salient features of the year's business and shall submit the same to the Committee of Supervision constituted under the authority of the next following section.

COMMITTEE OF SUPERVISION.

92. A committee to be called the Committee of Supervision over the Imperial Bank of India shall be constituted by the Government of India and shall consist of not more than seven members three of whom shall be the Finance Member and the Member for Industries and Commerce in the Executive Council of the Governor-General and the Financial Secretary to the Government of India and the remaining four chosen by a resolution of the Legislative assembly from among its members representing Indian Commerce and Industry.

93. This Committee shall consider and report upon the working of the Imperial Bank of India with special reference to the issue of Currency Notes and all other business incidental thereto as well as the use and extent of the transfer system, the purchase and sale of Bullion and securities for the Currency reserve and the operations in this behalf of the foreign Branches of the Bank. The Committee of supervision shall draw the attention of the Bank Authorities as well as of the legislature to any evasion or breach of the law and shall furnish explanation on any doubtful point of law which shall be authoritative for the Bank and binding upon the Bank.

94. The Committee of Supervision shall be entitled to ask the Bank to open new Branches in places specified by the committee, to suspend existing Branches or to add to or diminish their powers, to write off bad debts, or realise depreciating securities, to suspend, remove, censure, or advance any officer or servant of the Bank.

EXAMINERS.

95. The Committee of Supervision shall appoint a number of Examiners not exceeding one-tenth in number of the total branches of the Imperial Bank of India in India and one additional Examiner for the branches in each foreign country.

96. The Examiners shall examine the operations of every branch as well as the Head Office and every agency of the Imperial Bank and shall have power to make a thorough examination of all the affairs of the Bank.

In conducting such examination the Examiner shall have power to examine any officer or servant or agent of the Bank on oath and after the examination the Examiner shall make a thorough and detailed report to the Supervision Committee.

Such examinations shall take place at least twice a year but no date shall be fixed in advance for the examination, provided however that the Supervision Committee may direct at any moment a special examination to be held of any Branch or Agency of the Bank aforesaid.

97. The salaries of such Examiners shall be paid from the current revenues of India and the Examiners shall be regarded in all respects as the Officers of the Government of India.

These Examiners shall be appointed by the Committee of Supervision and shall not be removable from their office except for proved misconduct and upon a resolution of the Legislative Assembly specially passed in that behalf.

The salaries of the Examiners shall be fixed by the Committee of Supervision subject to the approval of the Legislative Assembly.

98. The expense of the examination including the travelling charges of the Examiners and their halting and other allowances shall be charged upon the Bank and shall be governed by the Civil Service Rules in respect of these charges.

The examination provided in this and the foregoing sections shall be independent and exclusive of such arrangements for the audit of the Bank accounts as may be made by the Bank itself or be required under the provisions of the Bank Charter Act.

99. Any Manager, Director or other Officer of the Bank offering any gratuity gift, consideration of any kind to an Examiner and convicted in a proper court of this offence shall be punishable by fine not exceeding Five Thousand Rupees and shall be liable to dismissal from the service of the Bank and declared unfit for any appointment under the Government in any other department.

100. The Charter granted to the Bank under the Charter Act and embodying the privileges mentioned in this Act and others detailed in the Charter Act shall expire ten years after the date of the coming into effect of the first charter, but shall be capable of renewal by fresh Legislation which may change any of the provisions relating to the administration supervision and examination of the Bank and its Branches as well as the right of the state to be represented on the Board of Directors by a prescribed number of official Directors as well as the share of the State in the profits of the Bank or the tax on excess Note issue or the taxes on the movable or immovable property held or owned by the Bank or the stamp or any other duty payable by the Bank as a lump sum or any other contribution to the public exchequer. Provided that the provisions of this Act relating to the Note issue the transfer and remittance business the purchase and sale of Gold Bullion in connection with the paper currency shall not be altered except as provided for a Constitutional Act.

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